CANADA

BUDGET SPEECH

DELIVERED BY

aussi premier

HON. J. L. ILSLEY

MINISTER OF FINANCE

MEMBER FOR DIGBY-ANNAPOLIS-KINGS

IN THE

HOUSE OF COMMONS

APRIL 29, 1941

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1941

INDEX

BUDGET SPEECH

I. Economic and Financial Review 1
  Financing Operations 2
  Economic Conditions 2
  Foreign Exchange 4

II. Government Accounts, 1940-41 6
  Revenues 7
  Expenditures 7
  Over-all Deficit 8
  Debt 8

III. Budget Forecast 1941-42 and Proposals 8
  Estimate of Expenditures 8
  Estimate of Revenues 9
  Budget Proposals 9
    Offer to Provinces 10
    National Defence Tax 13
    Personal Income Tax 14
    Succession Duties 16
    Non-resident Income Taxes 18
    Excess Profits Tax 18
    Indirect Taxes 19
    War Exchange Conservation Act 21
    Tariff Proposals 22
    Estimated Yield from Increased and New Taxes 22

Conclusion 23

Resolutions 23

APPENDIX

A. Review of Government Accounts, 1940-41 3
  Statement of Revenues 4
  Statement of Expenditures 5
  Summary of Revenues and Expenditures 8
  Revenues, 1940-41 9
  Expenditures, 1940-41 10
    Ordinary Expenditures 10
    Capital Expenditures 11
    War Expenditures 11
    Special Expenditures 14
    Government Owned Enterprises 15
    Other Charges 16
  Percentage Distribution of Revenues and Expenditures 17
  Over-All Deficit, 1940-41 19
  Loans and Investments, Active Assets 19
  Loan Flotations 23
  The National Debt 24
  Indirect Liabilities 28

B. Tables on Economic Conditions 31

BUDGET SPEECH

DELIVERED BY

HON. J. L. ILSLEY

MINISTER OF FINANCE

IN THE

HOUSE OF COMMONS, TUESDAY, APRIL 29, 1941

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. J. L. ILSLEY (Minister of Finance) moved:

That Mr. Speaker do now leave the chair for the house to go into committee of ways and means.

He said: Mr. Speaker, this is our third war-time budget. The first was presented in September of 1939, the second in June of 1940.

In these budgets the basic principles of our war-time finance were stated with definiteness and clarity. Such criticism of those principles as there may have been has not been based on their obscurity. We have repeatedly thrown them on the screen in bold outline and appealed to the people of Canada to help us in making them succeed.

To-day's budget will further apply those principles. Those who are looking for interesting departures from them will be disappointed. But there will be no disappointment for those who believe that the financial burden of war should be distributed on a basis of equality of sacrifice, having regard to ability to pay.

I

ECONOMIC AND FINANCIAL REVIEW

Let me first review very briefly some of the economic and financial events and policies of the past fiscal year. This review will, I hope, assist the house to understand the reasons for the measures which I shall propose, and at least some of the difficulties of formulating practical and equitable ways and means of providing for the unprecedented appropriations which we have asked for.

As explained by my predecessor in the budget speech of June 24, 1940, the budgetary task of these years of war is that of devising financial policies which will assist in attaining the single object of both the government and parliament, the mobilizing of the maximum war strength of this country. In planning these policies, the government set for itself two objectives:

First, to bring the country as rapidly as possible to the full use of its resources and man-power. For this, financial policy could not be the sole nor even the chief instrument, but it was necessary that it should help and not hinder, that it should keep step with the work of industrial and military organization.

The government's second objective was to follow "as far as may be practicable a pay-as-you-go policy". This it derived not from any dogma of financial orthodoxy, whatever that may be, but from the known and proved inequities and the disorganizing and shattering effects of inflationary rises in prices and incomes.

At the time the budget was introduced last June, the country had made substantial progress on the road to full war mobilization. It had become clear, further, that speed during the coming months would be greatly accelerated. In contrast, therefore, with the very moderate tax increases of the special budget of September, 1939, we proposed, and parliament approved, increases in taxation which by any standard in our country's history were very great. These increases in taxation were specifically designed to conserve foreign exchange which had already become one of the scarcest of the sinews of war, and to recapture, for the purpose of meeting war expenditures, more substantial proportions of the rapidly rising incomes of our people. It was not assumed that at that time we had already reached the full use of our resources and manpower; rather, it was assumed that, in view of the expenditures proposed and the plans approved, we would within the fiscal year approach it. Having recommended tax increases then estimated to yield $280,000,000 in the full year and $110,500,000 in the fiscal year 1940-41, the government proposed to

borrow the remainder of its requirements then thought to be in the neighbourhood of $550,000,000.

Financing Operations

During the past fiscal year, the government found it necessary to borrow for the following purposes: first, to finance its deficit which, as I shall intimate later, has turned out to be considerably smaller than was forecast; second, in financing the Canadian dollar deficit of the United Kingdom, to provide for the repatriation from the United Kingdom and the cancellation of dominion and dominion guaranteed securities held there to the par value of $245,700,000; third, in respect of $325,000,000, to enable the Foreign Exchange Control Board to purchase, under the Foreign Exchange Acquisition Order, the gold and foreign exchange of the Bank of Canada and others; and, fourth, to refund other maturing issues amounting to $200,000,000 and held in Canada.

In round figures, the total borrowings of the government during the past fiscal year are classified as follows:

From the public, $383,000,000 made up of $325,000,000 war loan bonds, $52,000,000 (cash value) of war savings certificates, and $6,000,000 of non-interest-bearing certificates; from the chartered banks, $291,000,000; and from the Bank of Canada, $349,000,000; making a total of $1,023,000,000.

When we take into account that $325,000,000 was borrowed to finance an operation of a very special nature almost entirely within government institutions implementing the Foreign Exchange Acquisition Order, and that the greater part of the refunded issues held in Canada was in the hands of the banks, the amount of bank borrowing has been limited to safe and reasonable proportions. It must be borne in mind that many of the tax increases imposed last June did not begin to yield revenue in the past fiscal year. It should be recalled further that it was the expressed desire and policy of the government to facilitate the rapid expansion of industry and the mobilization of our resources.

It is, however, clear that, having, in this joint struggle for survival, imposed upon ourselves the greater financial tasks of the current fiscal year, we shall have to appeal to the public and the financial institutions, other than the banks, for very much larger amounts than hitherto.

The war loan last September was oversubscribed. It was not oversubscribed in the first few days, and the success of the campaign required persistent work on the part of those promoting it. We must be under no illusions. Amounts such as the government, as the instrument of parliament and of the people, is compelled to ask for are not likely to be oversubscribed on a Monday forenoon, and they will be obtained only if there has been most careful organization, and the most persistent and energetic promotion, and if there is a determined will in the Canadian people to place their savings at the disposal of their government for the prosecution of the war.

The war savings campaign, which was begun at the end of May, 1940, was renewed with increased intensity in February last. In the ten months to the end of March, the War Savings Committee sold certificates and stamps to the cash value approximately of $52,000,000, which was in excess of the first objective set for a full year of operation. In the meantime, however, the objective had been raised in accordance with the increased incomes of our people and the greater needs of the present. Last month applications were at the approximate rate of $2,500,000 par value a week, a rate which will have to be maintained to achieve the new objective of $120,000,000 a year.

I would impress upon the house the great importance of this savings movement. The savings campaign is not limited to the sale of war savings certificates, but will embrace also the sale of bonds as these are offered from time to time to the public. Stamps, certificates and bonds differ only in their convenience and appropriateness to the circumstances of subscribers. What is desired and what is necessary is that people should subscribe to their utmost out of their savings for the purpose of financing the prosecution of the war. Particularly is it essential that those, whose family incomes have increased since the outbreak of war, should contribute to a greater degree than others in the same income groups.

As we approach the point where, within practical limits, and having regard to the seasonal variations inherent in business in this country, we are making full use of our resources, those who place their savings at the disposal of the government are not only making provision for their own future, postponing their expenditures to the time when there will be labour and resources available to provide goods and services for them, but they are in a very direct way promoting the mobilization of resources and man-power for war to the utmost extent of which this country is capable.

Economic Conditions

It has been customary in the past to review the economic and business changes which have taken place since the last budget, and it is a particularly helpful custom at this time, because the record of the past year throws some light on the progress made in

bringing the full resources of this country into use for the furtherance of our war effort and for the maintenance of our people. It is also the background against which we must view the budget proposals.

It should be borne in mind that the financial forces bringing our resources into full use are the war expenditures of our own government, the purchases which the United Kingdom government is making here, and the exports which are sold to other countries. Financial policy has been a condition rather than a cause of the heightened tempo of Canadian business.

Taking the twelve months to the end of March as a basis of comparison, our exports to the United Kingdom increased by 45 per cent in the past year. Our exports to the United States have increased by about 21 per cent. To all countries the increase has been 26 per cent. Exports of gold increased by about 8 per cent, but, unfortunately, our receipts from tourists declined substantially. Our net receipts were increased only because of the travel restrictions imposed on Canadians.

For the first quarter of this calendar year, our rapidly rising war expenditures were five times the figure of the same quarter of last year and at the rate of more than $1,000,000,000 annually.

In comparison with the same period a year ago, the physical volume of business in Canada in January and February was 15 per cent higher while the volume of manufacturing was 11 per cent higher. It is at first a surprise that these increases are considerably smaller than those which took place in the preceding period of twelve months. When we turn, however, to the value of construction contracts, which in the first three months of 1941 stood 100 per cent higher than in the same period last year, we see that what was taking place, and is still taking place, is a great expansion in our capacity to produce, and that from now on a greatly increased output will be flowing from our war plants.

Whereas in March, 1940, the number of persons employed had increased by less than 7 per cent over the previous March, the increase shown in March of this year is approximately 20 per cent. In the early period of the war, increased output was obtained by employing more fully and for more days in the week those people who were already counted as employed. During the past year, it is apparent that increases in production have required the employment of additional workers. Clearly from now on, aside from some increases in efficiency, any enlargement in our scale of production will be dependent upon our ability to add more workers to our working force. It has already been indicated that we shall probably need this year for both the armed forces and industry an additional 300,000 persons. How near we are at present to full employment is a point open to prolonged argument. As long as there is rapid change in industrial needs, there will necessarily be some temporary unemployment. It is significant that the number of employable persons on relief during the past winter has been only a third of the number shown for the previous winter, that the percentage of trade unionists unemployed has been only slightly above the figure for the winter of 1928-29, and that industries necessarily seasonal in the operations are finding it increasingly difficult to maintain their working forces. It is undesirable that we should try to force the expansion of production to the point where our seasonal industries would be stripped of workers and some of our most important exports restricted. As our seasonal requirements and as our war requirements mount between now and next autumn, we shall have to forgo some of the less essential of our civilian requirements in the interests of maximum war production.

The greatly increased volume of business activity during the past year has resulted in very substantial increases in income. It has been estimated that our national income for the calendar year 1940 was $600,000,000 in excess of the figure for 1939. Of that $600,000,000, $348,000,000 was in salaries and wages, the remainder in business, professional, agricultural and investment income.

While we cannot trace all the ramifications of the expenditures of income, we can see easily enough where some substantial portions of the increase in income have gone. Something like $300,000,000 went into increased dominion revenues. Without increased rates some provinces and municipalities have experienced large fortuitous gains in revenue. For the first two months of 1941, retail sales in Canada were about 13 per cent higher than in the same period of the previous year. Purchases of passenger automobiles were slightly below the level of the previous year, which was, however, the highest level on record for January and February. Expenditures on residential construction during the first three months are reported to be 19 per cent higher than in the same period a year ago. The greatest increase in construction, of course, has been in industrial construction where the first quarter's figures are about four times those of last year. Most, but by no means all of this, has been occasioned by the expansion of war industries.

These few figures give some impression of a country which has greatly increased its capacity for war production, and, at the same time, increased its production for civilian use; a country which has drawn nearly all of its working force into active work, and will encounter more and more difficulty in expanding the scale of production still further. They indicate that far from there being any reduction in civilian consumption there has been a very substantial increase as war activity has developed.

We do not know what tremendous events are shaping to emerge in the year ahead of us. We are bound, nevertheless, to take account of the results of the programmes which have already been put into effect in the United Kingdom, the United States and in this country.

That our own plans call for war expenditures of $1,450,000,000, nearly double those of last year, is already known. The government of the United Kingdom has intimated that it expects that purchases for all purposes will be made in Canada to the value of $1,500,000-000. As the rapid acceleration of the United States defence programme proceeds, our exporters to that country will be called upon for larger and larger shipments. Rapidly developing industrial cooperation between ourselves and our neighbours will intensify this demand. These tremendous requirements of goods are additions to our normal requirements for consumption and maintenance of our capital equipment.

Under the stimulus of these purchases, it is expected that our national income will increase greatly. Against an estimated increase of $600,000,000 from the calendar year 1939 to 1940, it has been estimated that the national income in the fiscal year 1941-42 is likely to rise $950,000,000 above the figure for 1940. The achievement of this increase depends, of course, on realizing a great increase in our industrial output. For the attainment of that increase we rely mainly on the expansion of industrial capacity which has taken place in the past year.

Such an increase in our national income, to a level 35 per cent above that of 1939, will make possible a powerful contribution to the success of the struggle in which we are engaged jointly with the other British countries and the United States. It will make it possible without any serious encroachment on the basic standard of living of the people of this country. It will not, however, make it possible for us to expand our consumption still further nor will it be possible for us generally, while we are engaged in this struggle, to enlarge, remodel and reequip our houses, buy larger and faster motor cars and respond to each and every appeal of the alluring advertisement. We can postpone till after the war the purchase of many wholly desirable and convenient products, and thereby give right of way to the equipping and maintaining of the forces that stand between us and Hitler.

Foreign Exchange

The house does not need to be told that some of the most difficult and intricate of the financial problems of the country arise from our relations with the United Kingdom and the United States. Since the outbreak of war, Great Britain has suffered in common with us an acute shortage of United States dollars. In addition, Great Britain has been short of Canadian dollars.

Up to March 31, Britain's deficit in her balance of payments with Canada was approximately $795,000,000. Of this amount only 31·4 per cent was met by the transfer of gold to Canada. Canada financed the remainder by the repatriation of Canadian securities held in Britain, and by the accumulation of sterling balances in London. The first of these methods accounted for 42·4 per cent of the total deficit and the second for 26·2 per cent of that deficit. Since early December no gold has been received from the United Kingdom, and Canada is at present making Canadian dollars available to the United Kingdom for the full amount of her deficit with us, which for the first quarter of 1941 amounted to approximately $186,-000,000. During the present fiscal year our shipments of munitions of war, raw materials, and agricultural products are expected to increase very rapidly and, as has already been indicated to the house by the Prime Minister, they are estimated to reach approximately $1,500,000,000 for the fiscal year as a whole.

On this basis it was estimated that the deficit in the balance of payments with Canada of Britain, or, more accurately, of the sterling area, would be approximately $1,150,000,000. This would be a colossal sum to think of adding to Canada's direct war expenditures of perhaps $1,450,000,000. The house, however, I am sure will agree that it would be unthinkable that Britain should be unable to purchase vitally needed supplies in Canada because of a lack of Canadian dollars. For that reason it has been necessary for us to assure Britain that Canada would meet such proportion of that total deficit as Britain herself would not be able to meet by the transfer of gold or United States dollars to Canada.

In view of the changed aspect of this problem as a result of events of the last few

days, I wish now to turn for a few moments to Canada's own exchange problem *vis-à-vis* the United States. As the house is aware, Canada has normally had a deficit in her balance of payments with the United States, but in the pre-war years that deficit was met by the conversion of our surplus sterling into United States dollars in the free market in New York. Since the outbreak of this war it has not been possible to convert this surplus sterling into dollars, with the result that we have had to face the prospect of a growing shortage of United States dollars coincident with an increasing accumulation of surplus sterling. This deficit in our United States account has been a continuing problem from the outbreak of war. Our nearness to the United States is such and the commercial and industrial relations of the two countries are such that as long as United States industry is working at less than capacity, any shortage of resources, plant, material or labour could be made up by the expenditure of United States dollars. Thus, all other shortages tended to be converted into this shortage of hard currency.

The house is familiar with the series of measures by which the acuteness of this deficiency has been mitigated. The original Foreign Exchange Control Order prohibited the export of capital. Strenuous efforts have been made to extend our exports, our tourist traffic and our gold production. In May last, under the Foreign Exchange Acquisition Order the gold and foreign exchange of the Bank of Canada and private holders were taken over by the board. In June the war exchange tax of 10 per cent was imposed. In July the board was instructed to refuse dollar exchange for purposes of pleasure travel. In December the War Exchange Conservation Act prohibited, in effect, the importation of a large number of products from non-sterling countries, restricted the importation of others, and reduced, or, in most cases, eliminated, the duties on large classes of imports from the United Kingdom. In addition, heavy excise taxes were imposed, largely for exchange reasons, on automobiles and a considerable list of other articles which occasion substantial imports of parts and materials from the United States. These steps were taken in the conviction that it was only common sense that, when we were being forced to dispose of our United States assets to meet a shortage of United States dollars, we should do what we could without handicapping our war effort to reduce our non-essential expenditures in dollar exchange.

However, despite all the measures that were adopted, we experienced a continuing deficit in our dollar transactions with the United States. From September 15, 1939 (the date on which foreign exchange control was established in Canada) until March 31, 1941, Canada's net deficit with the United States on both current and capital account amounted to approximately $477,000,000. (This figure, as well as the others which I shall use, is in terms of Canadian dollars). As I have already explained, we received from the United Kingdom in the early part of the period a substantial amount of gold, which was, of course, used to meet part of our deficit with the United States. It was, however, necessary to cover the balance of approximately $225,000,000 by depleting our holdings of gold and United States dollar balances and by the liquidation of certain of our holdings of other United States assets. The rapid expansion of Canada's own direct war effort and the increase in British purchases in Canada already referred to were bound to bring, unless offset by other factors, a substantial increase in our deficit with the United States. In spite of the measures taken to curtail non-essential imports, we have estimated that our imports from the United States this fiscal year will reach the huge figure of $953,000,000, of which $428,000,000 will represent purchases for war purposes. More than half of this latter total would be accounted for by components and materials required to be purchased in the United States to execute British war orders placed in Canada. Our exports to the United States for the same period are estimated at $475,000,000.

Another important item on the debit side of our account with the United States is the payments we have to make for interest and dividends to United States investors estimated at $238,000,000, which is only offset to the extent of about $28,000,000 by interest and dividend payments coming the other way.

The house is also aware that our net tourist receipts last year proved very disappointing, and, while we hope that United States tourists will come to Canada in increasing numbers and for longer periods this year, it is probably not safe to count on net receipts from this source of more than $130,000,000.

Taking these and other relevant items into consideration, the best estimate we were able to make a few weeks ago indicated a probable deficit in our balance of payments on both capital and current account with the United States for the current fiscal year of approximately $478,000,000. This has recently been reduced by $11,000,000 as a result of a partial renewal of a dominion obligation maturing on May 1st next.

Perhaps I have said enough to indicate to the house something of the magnitude of these complex exchange problems. A dramatic

and magnificent contribution to their solution was made by the Hyde Park Declaration which the Prime Minister explained to the house yesterday. In that declaration, the thrice welcome progeny of the "good-neighbour" and "aid-to-Britain" policies, the President of the United States and our own Prime Minister made public an agreement under which the government of the United States will make available to Britain, under the lease-lend act, the United States components of British purchases in this country, and undertakes to purchase from us such war materials and equipment as we may find it possible to produce by an intelligently planned integration of the industrial capacities of this North American arsenal, having regard always to the requirements of Canada and the United Kingdom.

It is difficult to make any precise quantitative estimate of the contribution which the agreement may make to reducing our shortage of United States dollars. In the first place, while elimination of the necessity of our paying United States dollars for the United States components of British war orders in Canada should result in a substantial reduction in the drain on our United States dollars, administrative difficulties may be encountered which will make it difficult to apply the lease-lend procedure immediately to all items in this category, particularly certain raw materials purchased directly by private contractors. In the second place, while the Hyde Park Declaration referred to a total of between $200,000,000 and $300,000,000, the amount of the additional war purchases by the United States in Canada will depend on the practicable limits of production and integration, and it will, of course, take some months for them to reach their expected peak volume. The most reasonable estimates of the magnitude of these two factors still leave a considerable deficit in our balance of payments with the United States, but we hope this may be further lessened by continuing negotiations between the three governments.

However, I must warn the house that the Hyde Park Agreement, most generous and helpful as it was, does not remove all need for the conservation of foreign exchange. It is a magnificent contribution to the success of our common struggle, not to the ease and convenience of the Canadian people. It would be foolish, for instance, to assume that it will mean the restoration to par of the Canadian dollar in New York, a proposal which has recently been mooted by persons not familiar with the hard facts, or to assume that it will enable us to remove the present restriction upon the use of United States dollars for pleasure travel purposes in the United States.

It was only with the greatest reluctance that the government accepted the necessity of imposing these travel restrictions, and, as the Prime Minister stated upon his return from his recent visit with the President of the United States, this administration would abandon that prohibition immediately if it could be done without injury to Canada's war effort. Such action, however, cannot be taken at the present time, as the plain fact of the matter is that even taking into account the probable benefits of the Hyde Park Agreement, we have not sufficient United States dollars available to permit us to undertake additional commitments. If all restrictions were removed, I am of the opinion that we would have to find some $70,000,000 to $80,000,000 for pleasure travel.

While on this subject I would like to refer to certain misapprehensions which appear to exist in some quarters in regard to the policy which is being followed in permitting visits to the United States. In general, funds will be provided for any trip which is required for business reasons. Further, visits for necessary medical treatment or other types of health purposes are allowed, and, in certain cases, limits are established for educational courses not available in Canada. No funds will be provided for vacation or pleasure trips, but if any Canadian has arranged to visit relatives or friends in the United States who provide the United States dollars for the purpose, no objection will be raised. From time to time we hear criticism that certain people are allowed to visit the United States, and not others. I am advised by the Board that I can assure all concerned that absolutely no discrimination is exercised in considering applications and that exactly the same principle applies to every applicant. If the application falls within a class that is prohibited, it is refused without regard to the personalities concerned, and if it is in a permitted class it is granted on the same basis.

II

GOVERNMENT ACCOUNTS, 1940-41

I wish now, Mr. Speaker, to review the government accounts for the fiscal year which closed on March 31st. In accordance with the procedure which has been followed in the last two budgets, I shall merely at this time summarize the results of the year's operations and at the close of this address I shall table a white paper which will include all the significant details in regard to our revenues and expenditures, our direct and indirect liabilities, our active investments and our financing operations during the past year.

The house will realize that, while we are now past the end of March, our books for the fiscal year 1940-41 will not be closed for some time. For this reason the figures which I shall present to the house represent merely estimates, although I believe they are close estimates, of our revenues and expenditures for the past fiscal year.

Revenues

In this connection, my first duty is a pleasant one—that is, to report the fact that our revenues during the past year were of unprecedented magnitude. Our present estimate is that they will reach a total of $871,571,000, an increase over the previous year of over $309,000,000 or approximately 55 per cent. For no earlier year in our history have our receipts approached this huge total. Even the somewhat courageous estimates made by my precedessor last June were exceeded by more than $100,000,000. If hon. members contrast the huge total I have given with the dominion's revenues in the corresponding year of the great war, they will, I believe, find reason for confidence, not only in the increased strength of the dominion to bear the greater burdens of to-day, but also in the different methods which are being followed to finance this war. In 1915-16 the aggregate revenues of the dominion amounted to only $172 million, and even in the closing year of the last war they had risen to only $313,000,000.

The very large increase in our revenues as compared with those for 1939-40 is to be explained by several factors. In the first place, we imposed last year a number of new taxes and we increased the rates on several of our existing taxes. In the second place, the substantial increase in business activity, in personal and corporate incomes, and in consumer expenditures, to which I have already referred, have provided a broader base for all or nearly all our taxes. Finally, there was a much less important factor, the prepayment of income taxes not normally payable until April 30.

In these remarks I shall restrict myself to a brief discussion of our tax revenues and shall make no reference to our revenues from non-tax sources, such as post office receipts, return on investments, and various miscellaneous items. Total tax revenues are now estimated at $778,290,000, as compared with $468 million in the preceding fiscal year. The largest contribution to this total was made by our various excise taxes which account for aggregate receipts of $284 million as compared with $166 million for the previous year. Sales tax alone was responsible for total receipts of $180,750,000 and the war exchange tax for $62,000,000.

The income tax was the second most important source of revenue. From the graduated tax on personal incomes, the 18 per cent tax on corporate incomes and the special tax on interest and dividends, we received a total of $220 million, or more than 50 per cent in excess of any previous year in our history. The national defence tax produced a total revenue of $28 million, while under the excess profits tax we collected $24 million. In this connection, however, I wish to emphasize that it will not be until after April 30 this year that we will receive the very large returns which we expect from the excess profits tax, as well as from the increases in personal income taxes which were imposed last June. It is not as yet possible to determine with any precise accuracy the total amount of prepayment of income tax which normally would not have been paid until April 30, 1941, although it is estimated that about 110,000 taxpayers took advantage of the instalment prepayment plan and that prepayments were about $45,000,000.

Despite the important steps we have taken to restrict non-essential imports, our imports have shown a substantial increase and as a result our revenues from customs duties rose from $104 million in 1939-40 to an estimated $131 million in 1940-41. This is larger than in any year since 1931, but still considerably below most of the pre-depression years.

As a result of the tax changes imposed in the two earlier war budgets and of increased consumer incomes, our revenues from excise duties, mainly on liquors and tobacco, increased from $61 million to $89 million.

Expenditures

I turn now to some brief comments on our expenditures for the past fiscal year. We now estimate that our ordinary expenditures will be slightly over $393 million, of which total approximately 70 per cent is accounted for by interest and other charges on the public debt, civil and military pensions, cost of operating the postal service, and subsidies and special grants to provinces. Although it includes over $11 million additional interest and other charges on the public debt, this total is $5 million less than the corresponding figure for the previous year. Capital expenditures decreased to $3,405,000 from slightly over $7 million in 1939-40.

The largest decrease in our expenditures took place in the category of so-called special expenditures, representing chiefly the cost of unemployment relief, payments under the Prairie Farm Assistance Act, and provision for losses in respect of wheat. In connection with the last named item, I have thought it wise to set up a reserve in our books of $10,500,000 which is the deficit shown, not

previously provided for, in the operations of the Canadian Wheat Board calculated as at July 31, 1940. Including this reserve for wheat losses, our total special expenditures for the year are estimated at $42,613,000, which compares with an expenditure of $89,113,000 under the same category in 1939-40.

As the house already knows, there was also a substantial decrease in losses of, and non-active advances to, government-owned enterprises, chiefly the government-owned railway system. During the past year our expenditure on this account was $18,182,000 as compared with $42,079,000 during the preceding year.

I come now to the last important category of dominion expenditures, namely, those on war account. By this time hon. members will, I am sure, realize how difficult it is to make precise estimates of war expenditures in advance, even for short periods. Our latest estimates indicate that our total cash disbursements for this purpose charged to the fiscal year which has just closed will approximate $816,150,000, of which $791,862,000 will represent expenditures charged to consolidated fund and $24,288,000 will represent outgo in respect of items which we treat as active assets in our accounts. For the sake of comparison it may be interesting to note that in the corresponding fiscal year of the last war, namely 1915-16, the war expenditures of the dominion amounted to only slightly over $166 million, and even in 1918-19, the last year of the war, to only $447 million.

If we add the amounts which I have given you for the various categories of expenditure charged to consolidated fund together with certain miscellaneous other charges representing chiefly write-down of assets, we get an aggregate expenditure for the year of $1,266,627,000, which total I need hardly say also represents a new record for the dominion. Deducting total revenues of $871,571,000 we reach an over-all deficit for the year of $395,056,000. This is, of course, a very large deficit, but nevertheless it is substantially smaller than that which was estimated by my predecessor last June. It compares with a deficit of $118,700,000 in 1939-40.

Overall Deficit

As a result of the over-all deficit of $395 million, the net debt of the dominion rose to approximately $3,666,316,000 as at March 31, 1941. Gross liabilities at that date are estimated at $4,744,057,000. On the other side of the balance sheet, offsetting these liabilities in part, the dominion has active assets, including cash on hand, sinking funds, and active loans and investments amounting to $1,077,741,000.

Debt

At the close of the fiscal year there was outstanding unmatured direct funded debt (including treasury bills) amounting to $4,371,891,000, of which $5,233,000 were held in sinking funds against certain issues payable in London. Bonds and debenture stocks bearing the guarantee of the dominion and outstanding in the hands of the public totalled $984,016,379, as at March 31, 1941. These guaranteed securities were decreased by $100,462,853 during the year. There are also outstanding certain other contingent liabilities arising out of guarantees given under relief acts and various other statutes. These are fully set out in the white paper which I shall table at the close of my address.

III

BUDGET FORECAST 1941-42 AND PROPOSALS

Estimate of Expenditures

What I have said relates to the past, and what the house will now be interested in is the estimates of our expenditures for the new fiscal year and the measures and policies we propose for raising the necessary funds to meet these expenditures.

The house has approved estimated expenditures on non-war activities for the fiscal year ending March 31, 1942, amounting to $433,131,639.50. To this should be added supplementary estimates before the house, amounting to $35,000,000, to provide for payments to stimulate reductions in wheat acreage.

The house will recall that the war expenditures for the fiscal year ending March 31, 1942, were tentatively estimated at $1,450,-000,000. As was pointed out, however, when the 1941 war appropriation bill was introduced, these estimates are dependent upon a number of factors which cannot be determined in advance and for that reason authority was asked for an appropriation which is approximately $150,000,000 less than the war estimates of the various departments. In asking the house for an appropriation of $1,300,000,000, I said:

> "It may be that the total cost of our war effort expenditures during the coming fiscal year will exceed this figure by a considerable amount, and if it does, it will be necessary for me to come back for an additional appropriation at a later date."

It is not necessary for me to repeat the impossibility of estimating in advance with any degree of accuracy what our war expenditures will be during the new fiscal year. Obviously, this will depend in large measure upon events over which we have no control.

With these reservations, I shall add $1,300,000,000, which I think is an inside figure for war expenditures, to the total expenditures on non-war activities of $468,000,000. These two amounts together come to the tremendous sum of $1,768,000,000 for dominion government expenditures during the fiscal year 1941-42. If war expenditures exceed the present appropriation and reach the original estimate upon which the war program was based, our total expenditures would be $1,918,000,000.

Estimate of Revenues

To meet the expenditures which I have outlined, we estimate that our total revenues for the new fiscal year on the basis of the taxes which are now in force, will amount to approximately $1,150,000,000. These revenues are made up as follows:

Customs	$ 137,000,000
Excise duties	98,000,000
Sales tax	190,000,000
War exchange tax	81,000,000
Other excise taxes	51,000,000
Income taxes—	
Personal	135,000,000
Corporation	165,000,000
5 per cent tax	15,000,000
National defence tax	55,000,000
Excess profits tax	140,000,000
Miscellaneous	2,000,000
Total tax revenue	$1,069,000,000
Non-tax revenue	81,000,000
Total ordinary revenue	$1,150,000,000

This means that if our expenditures do not exceed $1,768,000,000, and if our revenues from present taxes produce $1,150,000,000, we should be faced with an apparent deficit of $618,000,000 to be covered by new taxes or by borrowings. On the higher estimate of war expenditures that deficit would be $768,000,000. If that were all, the problem would be difficult enough, but as everyone knows, the real magnitude of this country's war effort greatly exceeds the cost of our direct military programme, and for this reason the total amount which we must find through new taxes and by borrowing will greatly exceed whatever the government's budgetary deficit itself may amount to.

In an earlier part of this address I dealt with our exchange position with the United Kingdom and with the United States and pointed out the difficulties of estimating the amount of the British deficit with us or the amount of our deficit with the United States for the present year until the measures agreed to at Hyde Park have been worked out. Our immediate interest in these questions is in their effects upon our internal financing problem this year.

In order to appraise the magnitude of this problem we should first add to our own budgetary deficit the amount of Britain's deficit in her balance of payments with us. We should then deduct the amount of our exchange deficit with the United States because to the extent that we meet this by selling gold or foreign exchange or other capital assets it does not represent an immediate burden upon our current production.

On the basis of the information which is presently available to us, we estimate that the difference between Britain's deficit with us and our deficit with the United States will be between $800,000,000 and $900,000,000 in the current year. If this is added to the estimates I have given of our prospective budgetary deficit we arrive at a total of between $1,418,000,000 and $1,668,000,000 which we must raise by additional taxation and borrowing during the present fiscal year. For our present purposes, I think, we will not be far wrong if we assume the figure to be $1,500,000,000. It is unnecessary for me to emphasize the staggering task which this places upon the Canadian people. It can be done without any doubt, but it will not be easy.

I should like to point out to the house, however, the importance of keeping the magnitude of our task well before us when we consider the specific proposals which I now present. It is only by doing so that we can hope to consider the individual measures in their proper perspective.

Budget Proposals

To provide these funds, I shall lay proposals before the house designed to raise, by new taxes and increased rates of existing taxes, the amount of $300,000,000 in a full fiscal year. Of this amount, roughly $220,000,000 will be derived from direct personal and business taxes, $68,000,000 will be raised by indirect taxes which fall on commodities and services which, however desirable they may be, are not, in general, essential, and $12,000,000 from an indirect tax which will affect the family budgets of all. All of this will not, however, be collected within this fiscal year. In 1941-42, it is expected to obtain $250,000,000.

This leaves an estimated amount of $1,250,000,000 to be financed otherwise. Increases in certain government open and trust accounts such as annuities and superannuation, the unemployment insurance fund, war savings certificates and non-interest-bearing loans may be expected to provide a source of funds amounting to about $200,000,000. For the remainder, we shall have to appeal to the people, the business firms, and institutions of the country.

I need not tell the house that to raise such an amount will require such a great increase in the savings of the Canadian people that the help of every man, woman and child will be required. It will require also the careful limitation of our commercial and industrial investment to such plant and equipment as will aid in carrying on the war and as is necessary to the maintenance of essential services. With this object an order in council, effective from to-day, will shortly be passed making it necessary for any person or firm erecting or extending building structures for industrial and commercial use or installing machinery and equipment, to apply for and obtain a licence. To facilitate administration, small extensions and replacements will be excluded from the coverage of the order, and plant and equipment for primary industries and housing accommodation will be exempt. The order will be administered by the Director General of Priorities under the Department of Munitions and Supply.

This policy of controlling investment will have the important effect of providing a larger market for government bonds, but it will have other important effects as well. It will limit the demand on steel, machine tools and skilled labour; it will prevent some unsound extensions of industry under the stimulus of the War Exchange Conservation Act; and it will provide a backlog of investment and construction requirements for the post-war reequipment and modernization of Canadian industry.

I have already indicated that the new tax proposals involve very important increases in direct taxation. That will surprise no one who is aware of the magnitude of our financial requirements and who is familiar with the financial policy which this government has followed from the beginning of the war. As my colleague said when discussing the increases in personal income taxes which he proposed in the budget of June, 1940, "this is the tax which in principle most nearly approximates ability to pay. We realize that increases in indirect taxes disguise the burdens imposed by the war but they are much more likely to distribute these burdens harshly and unfairly". Our views upon the type of additional taxes which should best be imposed have not changed. We still believe that if there must be increased taxes, then it is better to increase the direct taxes as much as we possibly can. And in this most critical year of our history when the future existence of all the important things that matter to us is at stake, I do not think it unreasonable to ask our people to accept further drastic increases in both personal and corporation income taxes. I think they are prepared to shoulder the increased burdens which we must ask them to bear.

Offer to Provinces

But when we come to the point of increasing personal and corporation income taxes still further, we are confronted by the situation to which reference was made last year in the following terms. I quote from my predecessor's speech:

"The dominion is not the only taxing authority levying steeply graduated rates on large incomes. Every province in Canada, except Nova Scotia and New Brunswick, now levies income taxes and in certain cities taxpayers must pay municipal income taxes as well as provincial income taxes. Ontario, Manitoba, and Prince Edward Island are the only provinces which allow, as a deduction from income, the tax paid to the dominion. All these authorities tax at different rates. This means that unless we are prepared to be entirely arbitrary and unfair and to set up schedules of rates which when added to the rates imposed by other taxing authorities would be nothing short of fantastic, the dominion must, in fixing its schedule of rates, take cognizance of the highest schedule of rates effective in any province. This is but an instance of the chaotic situation in the fiscal systems of Canada to which the Sirois report has drawn attention and which, I regret to say, appears to be getting worse rather than better."

Since these words were spoken the tax structures of some of the provinces have been changed to some extent. It was recently announced that British Columbia intends to repeal its surtaxes on higher incomes. The treasurer of the province of Quebec has intimated that the municipal income tax levied by the city of Montreal will be discontinued. On the other hand, New Brunswick has now entered the corporation income tax field. But in spite of these particular changes, the general problem which was explained to the house last June remains unchanged.

We hoped that some solution of those difficulties would be found at the dominion-provincial conference which was held in January to consider the recommendations contained in the Sirois report, but as everyone knows the conference failed. There is nothing to be gained by reviewing the events which led up to the conference or discussing the causes of its failure. We must accept the differences of opinion expressed at that time without resentment or disappointment and get on with our jobs. And in case there may be any lingering doubts in any one's mind, I should like to state categorically that the question of the Sirois report will not be reopened at the instance of this government until after the war at least. What has proven to be such a contentious domestic issue must not be allowed to weaken our national unity in this critical year.

If I may be permitted to digress for a moment at this point, I should like to assert as strongly and as definitely as I can that while we may have differed in the past and may differ in the future about the best solution for some of our domestic problems there is no disagreement among Canadians upon our main purpose. And that is to put forth the maximum effort of which we are capable in the struggle with the forces of evil and of darkness, in the struggle with the common foe of all decent men. If the house will consider the estimated war expenditure for the fiscal year commencing April 1, 1941, and the amount of our financial assistance to Britain, which I gave the house a few moments ago and will think of what these expenditures mean in terms of hours of labour and of raw materials, I believe all members will agree that the Canadian people must pull together in their common purpose. Such a tremendous effort would not be possible unless we were united in our determination that the enemy and all he stands for shall be overcome.

To return to the problem of the different levels of direct taxation between provinces, it has been suggested that the dominion government should impose whatever taxes it thinks necessary without any regard whatever to the difference in the provincial rates. But the situation to which my predecessor referred last June still exists. In fact, it becomes worse and the differences between the provinces become aggravated as the general scale of taxes increases.

The combined rates of tax on the lower income levels are relatively moderate at present and under these conditions the differences in the taxes paid by residents of different provinces are tolerable. But if the taxes are to be increased as they must be, those differences will become progressively less tolerable. This means that if the dominion government introduces tax rates which together with the existing provincial rates are appropriate to the situation in some provinces the result would be that residents of other provinces where the provincial income taxes are relatively higher, would pay more than the maximum which it is thought people with similar incomes elsewhere can be asked to bear.

A further difficulty arises because of the fact that provincial income taxes in western Canada in combination with dominion rates rise more steeply than they do in the east. As a result, it is particularly difficult to increase the taxes in the higher income brackets. However, if the dominion rates on higher incomes are not increased then the combined taxes on such higher incomes in eastern Canada will be unfairly low as compared with the proposed increased taxes on lower incomes. Since the taxes on lower incomes must be increased substantially in order to produce the revenues required, it is only proper that we should also increase the taxes on the higher incomes if we are to preserve the principle of spreading the burden in proportion to ability to pay. But at this point, the progressive provincial taxes in the western provinces interfere with the course of action which should be taken to produce an equitable result in eastern Canada.

After the most careful study we have come to the conclusion that the dominion in establishing its rates of taxation cannot ignore the differences in the levels of direct provincial taxes to which I have referred. On the other hand, in view of the magnitude of the problem before us we cannot permit those differences in provincial taxes to influence us to the point where we refrain from imposing the maximum rates of dominion taxes which we think the public can fairly be expected to stand. We cannot permit ourselves to forget that we must raise $1,500,000,000 this year by additional taxation or borrowing.

After the most careful consideration of all the questions involved we have reached the conclusion that the rates of personal and corporation incomes taxes should be raised by the dominion to the maximum levels which would be reasonable at this time, if the provinces were not in those fields. Our plans are drawn, therefore, on that basis, and in due course I shall outline proposals to increase the minimum rates of corporation income tax to 40 per cent; to increase the rates of personal income taxes very considerably and to increase the national defence tax.

But these increases if taken together with the existing provincial rates would result in too heavy a burden and it is proposed, therefore, as a temporary expedient for the duration of the war only, to ask the provinces to vacate these two tax fields.

I am writing to the provincial premiers informing them that the dominion will offer to pay each year for the duration of the war, to any province which, together with its municipalities, will temporarily vacate the personal income tax and corporation tax fields either

(a) The revenues which the province and its municipalities actually obtained from these sources during the fiscal year ending nearest to December 31, 1940, or

(b) The cost of the net debt service actually paid by the province during the fiscal year ending nearest to December 31, 1940

(not including contributions to sinking funds), less the revenue obtained from succession duties during that period.

Such payments will be augmented by appropriate fiscal-need subsidies where it can be shown that these are necessary. At the same time, it is proposed to discontinue the present special grants which are voted annually by parliament.

I should like to emphasize that this is not an attempt to get the provinces out of these tax fields permanently. While it is proposed that the dominion should increase the tax on corporation incomes this will be done by raising the minimum rates under the Excess Profits Tax Act which is not and never was intended to be a permanent fixture in our tax structure. Furthermore, it will be noticed that succession duties are specifically excluded from the proposal which is being made to the provinces.

It is not intended that the dominion should interfere in any way with the royalties or special taxes which the provinces now levy upon timber limits, oil wells, mining or other natural resources. It is obvious that in war time as well as peace time the provinces have a special interest in the development of their natural resources and that they must be left in a position to raise the necessary revenues for this purpose.

I should also like to emphasize that no province is being forced to accept this offer and any province which does accept will have the right to withdraw from the plan at the end of any year subject to reasonable notice. Furthermore, the arrangement with the provinces will be discontinued and the dominion will cease making the payments which are contemplated in the proposal and will agree to reduce its taxes in these two fields proportionately, within one complete fiscal year after the termination of the war.

The plan which I have outlined for alleviating the present difficulties is by no means perfect and is not intended to be more than a temporary war-time expedient. However, it has the merits of simplicity. It will permit the dominion government to levy the necessary taxes without injustice to residents of different sections of the country or to different income groups. As far as the provinces are concerned, it will ensure them a fixed revenue for each year during which the war continues, based upon the level of such revenues during the past year. In other words, the dominion guarantees the provinces an annual payment equivalent in all probability to the maximum amount which they have ever received from the two tax fields under discussion. It is true that if incomes continue to rise the provinces might receive even larger revenues from these two sources in the future than they did in the year 1940, but this would depend in part upon the course and nature of the war, in part upon the level and nature of dominion taxation and upon many other questions which cannot be foreseen or assessed at this time.

The alternative offer of the dominion to pay the cost of a province's debt service is intended for those provinces which have not developed to the same extent the personal income tax and corporation tax fields and for those provinces which represent that they must be given some measure of relief pending a final solution of their present difficulties.

I sincerely trust that all provincial governments will consider that these proposals are fair to them and that they will accept them in a spirit of cooperation and with a desire to help us in our considerable task. I sincerely trust that all sections of the community will unite in supporting the plan as a temporary expedient but one that is necessary if we are to apportion the burden of the tremendous effort which this country is making among our citizens in as fair and reasonable a manner as is humanly possible.

There are two other matters which I should refer to in connection with this proposal to the provinces. If the plan is accepted, the provinces will cancel the great variety of flat rate or specific taxes which are now levied on corporations. In general, these will be more than offset by the proposed increase of 10 per cent in the corporation income tax. It is possible, however, that certain classes of companies—such as the banks, railways, insurance companies and possibly one or two other groups—would benefit from the change. To avoid this it is proposed to introduce a limited number of specific taxes on the types of enterprises I have mentioned. These will not be decided upon until after a careful study has been made of the details of the existing provincial taxes which will be discontinued. When they are introduced these specific taxes will be made retroactive so that there will be no interval between the date when the provincial taxes come off and the date when the dominion taxes go on.

The second matter to which I should refer briefly at this point and which I shall discuss more fully later on, is the proposal to introduce a special excise tax of 3 cents per gallon on gasoline sales. This proposal is necessary both for revenue and for exchange conservation but it may have the effect of cutting into provincial revenues. It is, therefore, proposed in order to assist the provinces which agree to vacate temporarily the personal income tax and corporation tax fields,

to guarantee to them an amount equivalent to the revenues which such provinces actually receive from gasoline taxes during the fiscal year ending nearest to December 31, 1940, provided they do not change their present gasoline tax rates. In other words, if their revenues from this source, in any year during which the proposed plan is in force, should fall below the 1940 level, the dominion will make up the difference.

It is difficult to estimate accurately the amount of the annual payments to the provinces which are contemplated in the plan which I have described or the additional revenues which will accrue from the proposed increases in the personal and corporation income taxes. Many questions of detail will have to be worked out with the provinces. However, if these questions of detail are approached on both sides by a determination to reach a fair conclusion they should not prove to be too difficult of solution. With these reservations I may say that we estimate that after making the required payments to the provinces, the net increase in dominion revenues from the changes now proposed in the personal income taxes and corporation taxes will be approximately $90,000,000.

In coming now to state in some detail the tax measures that are being proposed, I shall deal first with the direct taxes levied on individuals, then with those levied on corporations and non-residents, and finally with the indirect or commodity taxes. There are important changes in each of these fields. As I have already indicated, and with the object of keeping our entire tax structure as equitable as possible at a time when rates are being increased very greatly, and even minor inequities become serious, we have decided to place our main reliance for increased revenue on direct taxes levied on the income and property of individuals. These are the fairest taxes, for their amount depends upon the best measures that can be found for ability to pay, and their burden is not shifted on to other shoulders as may be the case with other taxes. Consequently, I have endeavoured to raise the rates of direct taxation to the highest level which I think the Canadian people can be asked to bear in this historic year. No longer do we need delay at all for fear of diminishing purchasing power. We must still have some regard for incentive and efficiency, but I think we can certainly assume that other motives than those of personal gain are dominant in the minds of Canadians to-day, whatever their incomes or positions.

National Defence Tax

The major source of additional revenue will be a substantial increase in the income tax, both in the graduated rates of tax and in the national defence tax. Dealing first with the national defence tax, the changes are simple but significant. Commencing on the first of July it is proposed that the rates of this tax will be increased from two per cent at present to five per cent, and from three per cent at present to seven per cent. The only other substantial change in this tax will be an increase from $600 to $660 in the minimum annual income below which no single person is liable for this tax.

Nearly all hon. members, and indeed most Canadians, will have expected a substantial increase in the rates of this tax in view of the enormous size of our financial requirements, which have been frankly explained on many occasions in this past six months. In judging the amount of the increase it should be realized that we are not increasing the rate of the general sales tax which is practically the only other alternative source of such a large amount of revenue. I have chosen to recommend a substantial increase in the national defence tax, and the graduated income tax rates rather than the sales tax, because these income taxes are very much fairer in their distribution, as I think every one of us will admit. We do not see the sales tax clearly when we pay it, but an increase in it would affect us just as severely and less equitably than an equivalent increase in the national defence tax.

I am proposing an increase from 600 to 660 dollars in the exemption from this tax because I believe that the heavier rate is a little too heavy right at the bottom in the case of single persons living away from home. The new figure is less than $100 below the regular income tax exemption. The amount to be deducted for children or dependents under the new rates will be at the rate of $20 per annum instead of $8, being equivalent to the 5 per cent rate of tax on $400.

It will be noted that in raising the rates the present 1 per cent margin between the tax on married persons and single persons with incomes over $1,200 has been increased to 2 per cent. This, I am sure, you will consider reasonable because when the general weight of our taxes is being increased so substantially the relative importance of the differing circumstances of individuals having equal incomes becomes increasingly significant.

The general principles of this tax and the methods of its collection are being left as they are at present. The tax will continue to be deducted at the source as far as possible, and the provisions in regard to refunds will be continued. I am glad to acknowledge the cooperation which we have

had from businesses and their employees in the efficient collection of this tax. Their continued assistance is essential to its successful functioning. I would also like to pay a tribute to the efficient work of the Income Tax division of the Department of National Revenue whose burdens have been increased enormously by this and other war taxes. One is apt to forget that the tax collector is most decidedly a hard-working and vital unit in a great war industry.

It is estimated that the increase in the rates of this tax would, in a full year, result in an increase of about 80 million dollars in revenue. As they will be in effect for only part of this fiscal year I anticipate an increase of about $55 million in this year's revenue because of these changes in rates.

Personal Income Tax

I am proposing substantial increases in the graduated rates of income tax made up in such a way that in combination with the increase in the national defence tax they will result in a progressively rising rate of increase in relation to the income now left with taxpayers after payment of taxes at existing rates. The new graduated rates will commence at 15 per cent on the first thousand dollars of net taxable income, in place of six or eight per cent at present, and they will be 20 per cent on the next thousand, 25 per cent on the third thousand, and so on upwards until they reach 80 per cent on the block of net taxable income, if any, between $300,000 and $500,000, and, finally, 85 per cent of that over $500,000. Of course these rates do not include the national defence tax rate applying on the same income. If that be included, income over the amount of exemptions will be taxed at rates ranging from 20 per cent at the bottom to 90 or 92 per cent at the top. These rates apply both to earned income and investment income. In addition I am proposing a new surtax of 4 per cent on actual investment income, with a moderate amount exempted. The present so-called investment income surtax, which is almost entirely a simple surtax on all income over $14,000, is to be absorbed into the new graduated rates, which have been increased additionally to take this into account.

Now that the general level of our income tax has reached this height, I believe we should make a more significant distinction between earned income and investment income. The man who must work for a given income, whatever its amount, is in a less favourable position than a man with the same income derived from investments. To take but only one aspect, the man earning his income must set something aside if he wishes to provide for his own old age, or for his family when he can work no longer, while the other has his capital as security for the future. Our present surtax only taxes investment income within the narrow range between $5,000 and $14,000, and at a low rate. The new surtax is to tax all true investment income of more than $1,500, or of more than the sum of one's exemptions and allowances if these are more than $1,500.

No change is being suggested in the basic exemptions for the graduated income tax, $750 for single persons and $1,500 for married, nor in the allowance for children and dependents of $400 each. The exemptions were reduced last year, and those with children will, I believe, experience enough difficulty in adjusting themselves to these new rates without any reduction in the allowance they receive for their children. The persons with incomes immediately below the exemptions for the graduated tax are being adequately and more efficiently reached by the increase in national defence tax.

In accordance with the announcement I made in February, it is proposed to reduce from 50 per cent to 10 per cent of income the maximum amount to be allowed as a deduction for gifts to all charitable or patriotic organizations, with a minor exception for the arrangement already made for the National War Services Fund.

It is proposed to change the date at which the income tax becomes due from April 30 to March 31. At the same time it is proposed to extend the arrangements for payment of the tax by instalments, and to provide that if one-twelfth of the tax, estimated on the base of the previous year's income, is paid in each of the months September to December, and one-eighth of the balance, recalculated after the end of the year, is paid in each of the months January to August, then no interest will be chargeable on the instalments after March 31. I wish to recommend strongly this method of payment by instalments. Now that we have again raised the rates, our Canadian income tax is something which the average family must budget for each month. As many of us have discovered recently, no longer can we hope to find the tax money in a month or two in the spring.

The house will, I know, be interested to see how the new schedules work out in relation to various incomes. Consequently, I would like to place on *Hansard* at this point a table showing the total tax payable at these new rates and at the present rates, including national defence tax at the rates for a full year. The taxes are shown for single persons, married persons without dependents and married persons with two children. Because of the offer which is being made to provinces, I have arranged that this table show simply the dominion tax.

PRESENT AND PROPOSED INCOME TAX INCLUDING NATIONAL DEFENCE TAX
(Dominion Taxes only)

Income	Single Persons		Married Persons		Married Persons 2 Dependents	
	Present Tax	Proposed Tax	Present Tax	Proposed Tax	Present Tax	Proposed Tax
$	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
700..........	14 00	35 00	....	....	....	....
750..........	15 00	37 50	....	....	....	....
1,000..........	35 00	87 50	....	....	....	....
1,250..........	72 50	162 50	25 00	50 00	9 00	22 50
1,500..........	100 00	217 50	30 00	75 00	14 00	35 00
2,000..........	165 00	340 00	75 00	175 00	24 00	60 00
2,500..........	240 00	475 00	125 00	275 00	46 00	115 00
3,000..........	325 00	622 50	195 00	400 00	95 00	215 00
4,000..........	525 00	955 00	355 00	675 00	223 00	450 00
5,000..........	765 00	1,332 50	555 00	1,000 00	391 00	735 00
7,500..........	1,515 00	2,400 00	1,215 00	1,965 00	983 00	1,637 00
10,000..........	2,437 50	3,600 00	2,070 00	3,080 00	1,780 00	2,710 00
15,000..........	4,552 50	6,277 50	4,110 00	5,625 00	3,782 00	5,209 00
20,000..........	6,802 50	9,105 00	6,310 00	8,330 00	5,982 00	7,890 00
30,000..........	11,587 50	15,082 50	10,980 00	14,085 00	10,636 00	13,621 00
50,000..........	22,242 50	28,392 50	21,390 00	26,965 00	20,998 00	26,437 00
75,000..........	36,970 00	45,877 50	35,845 00	43,935 00	35,429 00	43,391 00
100,000..........	52,697 50	64,347 50	51,300 00	61,875 00	50,860 00	61,299 00
150,000..........	86,175 00	103,317 50	84,255 00	99,815 00	83,791 00	99,207 00
200,000..........	121,652 50	143,795 00	119,210 00	139,270 00	118,722 00	138,638 00
500,000..........	362,555 00	411,720 00	357,015 00	401,120 00	356,423 00	400,408 00

NOTE.—In calculating the above taxes it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total.

A few examples will illustrate the scale of the increases. A married man with an income of $2,000 would pay a tax of $75 at present rates, including $40 national defence tax, and and at the new rates he would pay a tax of $175. A single man with the same income, at present rates, is liable for $165, and under the new rates would pay $340. This illustrates most clearly the extent to which we must tax even modest incomes, and will put in perspective the increases at higher levels. A married man with $4,000 a year, under the present rates, pays the dominion $355 a year, of which $80 is national defence tax. Under the new rates his tax will be $675. If he has two children his present tax is $223, and his new tax will be $450. Going further up, at $10,000 a year a married man pays at present rates $2,070, and at the new rates would pay $3,080. If he adds a dollar to his earnings at this level his tax increases by 49 cents. The very rich bachelor with a salary of $30,000 and investment income of $470,000 pays us now $362,555, and under the new rates would pay us $411,720. If a single man with a net taxable income of over $500,000 gets an extra dollar of income from his investments he will pay us 96 cents of it.

These new income taxes are heavy, without question, but they are not beyond our ability to pay. The costs of the war are very great, far greater in fact than the amount we can collect from these taxes. We have undertaken to meet as much as possible of these costs from taxes, and to tax in accordance with ability to pay. Cold logic forces us to admit that income taxes of less than these levels would amount either to shutting our eyes to reality, since we must reduce our civilian consumption by more than this total amount anyway, or else it would amount to an unfair distribution of the burden by imposing less equitable forms of tax to restrict consumption.

Perhaps I should point out that these rates of tax, particularly on what may loosely be termed the middle class, are still substantially less than the rates that have just been introduced by the British government. However, our maximum rates come very close to theirs and in making any comparison, one must, of course, remember that corporation income in this country is subject first to a corporation income tax and then to personal income taxes in addition when it is paid out as dividends. In Britain there is no corporation income tax, nor any minimum flat rate of excess profits tax.

The increase in revenues to be expected as a result of the increase in the rates of the graduated income tax and the surtax on investment income should be about 75 million dollars for a full year. This estimate cannot be a precise one because the numbers of new taxpayers brought in by the reduction in the exemptions last year are not yet known, and we can only guess as yet at the effects of the

war upon the distribution of incomes. Normally we should expect none of the revenue from income tax on 1941 incomes to be received in this fiscal year, but with the new plan of instalment payments, under which payments commence in September, and with the moving of the date on which the tax is due from April 30 to March 31, there will be a very substantial amount of revenue collected during this fiscal year from the tax on 1941 incomes. If the rates had been left at their present level we should have expected a net increase of $45 millions in our revenue this fiscal year due simply to these new arrangements as to payments. Under these new conditions it is also expected that $45 millions of the revenue resulting from the increase in rates will be received in this fiscal year.

Succession Duties

I indicated some months ago that in our search for new and yet equitable sources of revenue the dominion would probably need to enter the field of inheritance taxes. We propose now to do this and one of the resolutions I am going to move will provide for the introduction of a bill establishing a new dominion succession duty. This field of taxation has previously been used by the provinces and not by the dominion, though neither has any exclusive legal rights in it. Some of the provincial legislatures have exploited this field to a greater degree than others, but on the whole I believe they have not fully occupied it and that there is room for an additional and independent dominion tax at moderate rates, made up in the light of the existing provincial rates. The compelling need for revenue which induces us to enter this new field arises from the war, but I would not suggest that this new dominion tax is a temporary war-time tax only. It would be manifestly unfair to pick out for special heavy taxation that minority of the population whose parents or husbands happened to die during the war rather than after it. Consequently, one should regard this measure as something of more permanence than, say, our proposed increases in income taxes or indirect taxes. The rates of tax proposed must also be judged in this light.

Death duties, in general, are a very good type of tax, second only to income tax in their essential fairness and the possibilities of adjusting them progressively to ability to pay. They are even better than income tax in so far as they do not have as much tendency to reduce an individual's incentive to hard work and initiative. It is reasonable and just that one should be able to provide something for his wife and children, and others, after his death. It is also reasonable and just, however, that the state should share in what one leaves, at a rate dependent upon the amount of wealth being transferred. Indeed, I find this view so generally held in this country that it is not necessary to do more than call it to mind.

There are quite a number of possible forms of death duties which can be used, and which are used by other countries, and their states. They differ, for example, in regard to whether the tax is levied upon the estate itself, or upon the property received by each heir. They differ widely in the way in which the rate of tax is determined. In many cases it depends simply upon the size of the estate; in other cases upon the size of the amount received and, frequently, as well, upon the relationship of the deceased to those receiving the property. After considerable study I have decided to propose a composite type of tax similar to that used by most of the provinces in this country. The tax will apply to the amount passing to each sharing in the estate. The rate of tax will be determined mainly by the size of the amount which the individual receives, but also by the size of the estate itself, and the relationship of the beneficiary to the deceased. The table of rates given in the resolution gives effect to these factors. In determining the rate, we are laying more emphasis upon the size of the amount received than do the provinces, and I think this is fair since it is much the best method of judging ability to pay. On the other hand, we are proposing a smaller difference between the rates of tax applicable to children of the deceased and to collateral relatives and to friends than many of the provinces have. This is done because our rates will be in addition to theirs and I believe the combination will produce a reasonable total variation. Again, the provinces have, not unnaturally, tended to approach closer to a reasonable total rate on the large estates than on the small and, consequently, they have left relatively more room for us in the lower and middle ranges than at the top. Consequently, our tax cannot be quite as progressive on the very large estates as I would otherwise suggest. I should add that the differences in the rates in various provinces do prevent us from going as far in this field as we might in some parts of Canada because of the results we should produce in other parts.

The general level of the rates I am proposing is roughly comparable with the level of the provincial taxes, but probably somewhat lighter on the average than the rates in most provinces. The combination of these

new dominion rates and the provincial rates, should result in a total tax of about the same general magnitude as the British death duties, but with considerable differences in detail due to the different and complex natures of the taxes. The total Canadian rates would be somewhat higher than the British rates on others than close relatives, while they will tend to be lower where an estate is divided among a number of members of the deceased's own family.

We are proposing a fairly generous exemption of $20,000 for property passing to the widow of the deceased, so that if she receives less than that she will pay no tax, and if she receives more than that she pays only on the excess over that amount. A similar exemption of $5,000 is provided for young children, or children dependent on the deceased by reason of physical or mental incapacity. These children and the widow are also subject to a lower rate of tax than other children or grandchildren. In other cases, anyone will be subject to tax on the whole amount received if it is over $1,000. Estates of less than $5,000, and amounts received from them, will not be subject to tax, in order to cut down somewhat the need for investigating and assessing small estates on which, in most cases, the tax would be very small anyway.

I might give a few examples to the house of the way in which the tax would be calculated, and the amount it would reach. For example, suppose a man left $50,000, one-half to his widow, one-quarter to a young daughter, and one-quarter to a grown-up son. The widow receives $25,000 and is taxed at a rate of 1·5 per cent, based on an estate of $50,000, plus 2·5 per cent based on the amount received, or 4 per cent in all. This applies, however, only to the $5,000 which she receives in excess of the $20,000 exemption, so she would pay $200 tax. Similarly, the young daughter would pay a rate of 1½ per cent plus 2¼ per cent or 3¾ per cent on the $12,500 which she receives, less $5,000 exemption, or approximately $281 in all. The grown-up son would pay a rate of 1½ per cent plus 2·5 per cent, or 4 per cent in all on the total amount he receives, that is, $12,500, that is a tax of about $500. To take a simpler example, if an estate of $100,000 were all left to a grown-up son, he would pay on it a rate of 2½ per cent because of the size of the estate, plus 6 per cent because he receives $100,000, or 8½ per cent in all, $8,500. If it were divided among four such sons, however, they would each pay a rate of 2½ per cent plus only 3 per cent, or 5½ per cent in all. On the other hand, if they were four brothers of the deceased the rate would be ½ per cent higher, if four friends, another one-half per cent higher. The provincial taxes on the brothers or friends would, however, be much higher than on the sons.

This new tax will apply to all the property of those domiciled in Canada at the time of their death, with the exception of real estate in other countries. It is a usual international practice, I understand, to exempt foreign real estate in this way, and permit it to be taxed solely in the country where it is situated. Our tax will also apply to property in Canada, real and personal, of persons dying domiciled in other countries. As you will note in section 2 of the resolution, the tax will apply not only to property owned by the deceased at the time of his death, but also to certain other properties passing at the time of death, or transferred by the deceased in contemplation of death, or given within three years of his death, and various other specified transfers. There are, of course, a number of rather intricate legal questions involved in this type of taxation into which some members of the house may later wish to go, but I shall not attempt to discuss them at this time.

We are providing special increased exemptions for the family of any member of our armed forces who dies or is killed in such circumstances as would enable his widow or dependent children to receive a pension under the Pension Act, and in addition the amount of tax payable on property passing on his death to widows and lineal heirs will be reduced by taking only the present value, at 3 per cent, of the amount of the tax, assuming it to be deferred for the normal expectation of life for a person of that age. This means, in effect, that the tax is reduced in accordance with the extent to which the length of the man's life has been cut short.

This new tax will come into force on the date on which it receives assent. It will be administered by the Income Tax division of the Department of National Revenue. In speaking of administration I might say that we quite realize that there are bound to be difficulties involved in the evaluation of properties and interests in estates, and in liquidating estates for the payment of taxes. We have endeavoured to be fair in drafting the law in this regard and I think I may assure any who may be concerned over these points that every effort will be made to value properties fairly and to allow for the difficulties of liquidation.

It will be noted that we include in the property passing and taxable under this proposed measure any gifts made by the deceased above a reasonable minimum within

three years of his death, though any gift tax paid to the treasury on such gifts will be credited toward the amount of the succession duty payable thereon. In order to cover gifts made more than three years before death we propose to increase the rates of gift tax in accordance with the new schedule set forth in the resolution relating to income tax. These higher rates will also be more in accord with the higher rates of income tax that will be payable. In speaking of gifts, I might point out that no gifts made prior to the date of this budget will be subject to this succession duty, though gifts made from now onwards may be subject if made within three years of death, or made in contemplation of death.

It is extremely difficult to estimate with any accuracy at all the probable yield of these new succession duties, because there is such a scarcity of statistics on the number and value of estates passing in Canada each year. Basing my opinion upon a comparison with provincial rates and a study of the relative frequency of estates of different sizes in other countries, I would guess that in a full year we might expect to get about $20,000,000 out of this tax, but we may get substantially more than this. However, because of the lag that naturally occurs in the assessing and collection of this tax, we cannot expect much revenue from it this fiscal year—perhaps ten million dollars.

Taking together the substantial increases in the graduated income tax, and in the national defence tax, the more effective surtax on investment income, the greatly increased gift tax and, finally, the new succession duties, I have presented a far-reaching programme of direct, personal taxation. It is intended to create an efficient and equitable system of raising enormous amounts of money by really progressive taxation. It is most certainly not a system under which great fortunes are going to be accumulated, particularly when we remember as well the taxes on corporations.

Non-Resident Income Taxes

This concludes the outline of the changes in direct taxes affecting individuals in Canada. However, in view of the very drastic increases in taxes upon Canadian residents since the outbreak of the war we think it reasonable to increase the tax on non-residents under the Income War Tax Act from 5 per cent to 15 per cent. This rate, it will be noticed, is still lower than the effective rate of 16½ per cent payable under the United States laws on income going abroad to foreign countries in general, and very much lower than the corresponding rate applied by the United Kingdom. The raising of this rate will mean that the United States will be released from the requirements of the reciprocal tax convention of December, 1936. In addition to the change in rate it is also proposed to eliminate the restriction which limits the tax in the case of interest to payments made solely in Canadian funds. In future the tax will be payable on all interest other than interest on bonds of or guaranteed by the Dominion of Canada irrespective of the currency of payment.

It is estimated that the increase in the rate of this tax, together with the removal of the restriction referred to, will result in a net increase in revenue of $28,000,000 per annum.

Excess Profits Tax

Before the house rose for the Easter recess I read a statement respecting a number of amendments which it is proposed to make to the Excess Profits Tax Act. In doing so, I emphasized that the changes are in the nature of improvements in the structure of the legislation for the purpose of removing inequities and anomalies and to simplify and expedite administration. The changes proposed are not intended and will not result in any general relief from the weight of the excess profits tax. In fact, as I have already intimated, it is proposed to increase the minimum rate of tax under this act from 12 per cent to 22 per cent. This, taken with the 18 per cent levied under the Income War Tax Act will mean a tax of at least 40 per cent upon the incomes of all corporations.

I will not burden the house by repeating the detailed changes which are proposed and which I announced before Easter, but there are several additional points to be mentioned. The first of these relates to the lumber industry. Since the war the lumber industry has been requested to increase production both to meet the additional domestic and overseas demand, and also in order that our exports to the United States may be increased with a resulting increase in our receipts of foreign exchange. The industry is complying with the government's request to increase production. In doing so valuable timber limits are being depleted at a faster rate than would normally occur. These limits cannot be replaced at anything like their original cost and this is the cause of serious concern to the operators. Because of the expansion of their operations above pre-war levels, their profits have increased and they are subject to tax at the rate of 75 per cent, plus the taxes levied by the provinces. The margin of profit remaining is very small in relation to the value of the limits which are being exhausted at a rapid rate and which cannot be replaced except at much higher cost. We are satisfied that the

lumber industry is entitled to some relief for these reasons, but it has been difficult to decide how this should be provided. After the most careful study, we have come to the conclusion that the best way of dealing with the problem, and the most logical, is to permit an additional allowance for depletion on that portion of their production which is in excess of the level prevailing during the standard period. The allowances will be determined by the Minister of National Revenue in accordance with the principle which I have just enunciated.

An amendment will be introduced to exempt from excess profits tax companies whose sole purpose is that of holding investments in securities. It is difficult to defend a high additional tax in this case where a group of persons hold their investments in collective form rather than separately, which they might well do, and avoid the tax. To eliminate this admittedly harsh treatment it was decided to follow the practice of the United States and exclude investment trusts from the tax entirely.

In two cases the amendments to be introduced will differ slightly from those indicated before Easter. The amendment relating to the selection of three years out of four as a standard period if the profits of the fourth are less than half the average of the other three will be reworded to provide that this rule shall apply after adjusting profits for capital additions or withdrawals.

Another change relates to inventory reserves and provides that the taxpayer must add any unutilized portion of such reserve existing at the beginning of the second year following the year of termination of the act to the profits of the last year of the application of the act to the taxpayer.

Indirect Taxes

I turn now to indirect taxes. The emphasis in the measures proposed has been on direct taxation, and despite the ease with which many indirect taxes are collected they are not to be increased without careful discrimination. It has already been announced that the tax on sugar is to be increased from 1 cent to 2 cents per pound. This is a tax which is highly productive. To a considerable degree, it is paid by purchasers of candy, confectionery, and soft drinks, but it also affects the family living expenses of everyone. It is the only tax of that character which I have to propose.

An increase in the sales tax has, I think, been fairly generally expected. At least, there are evidences of a good deal of buying in anticipation of such an increase. This tax, while comparatively easy of administration and collection and extremely productive, has marked defects as a fiscal instrument. After extended consideration, we decided on balance against any increase. In coming to this decision, we were not forgetful of the problems of agriculture, which would have been intensified had the sales tax been raised.

The other indirect taxes proposed are taxes on expenditures but on expenditures which are, to a considerable degree, overt evidence of the existence of surplus income. At other times, taxes on expenditures are undesirable deterrents to the expansion of employment. In the circumstances of to-day, this defect becomes a virtue. We need revenue. We need to hold down the consumption of non-essential goods and services.

I have already intimated that it is proposed to impose a dominion tax of 3 cents a gallon on gasoline. Imports of crude oil make a heavy drain on our supplies of foreign exchange. The consumption of gasoline has been increasing rapidly. Its purchase is a channel into which increased personal expenditures are flowing. The imposition of a much higher tax than 3 cents coupled with a system of refunds to tourists, farmers, fishermen and others was considered. It has been decided, however, to recommend a smaller tax and make no provision for refunds. In support of this decision, I would remind the house of three considerations. Provincial gasoline taxes are closely linked to highway expenditures and rebates are properly given for gasoline used elsewhere than on the highways. The new dominion tax does not provide for highway maintenance. The United States treasury is proposing a federal tax of 2½ cents a gallon on gasoline. Since our good neighbours measure gasoline as we measure wine, this is equivalent to our proposed new tax of 3 cents. Finally, the tax is a small one and does not justify assuming the administrative burden and incurring the risks of abuse inseparable from a system of refunds. There will be two criticisms of the new tax: that it encroaches on a tax source traditionally belonging to the provinces, and that it will endanger the tourist trade. In respect of the provinces, it has been clear for a long time that the dominion could not ignore the growing demands for foreign exchange which the expanding consumption of gasoline entails; we are undertaking to protect the provincial gasoline revenues at last year's highly satisfactory level. In respect of the tourist trade, the new tax is no higher than the proposed rate of the United States federal tax. The amount is an insignificant addition to the expenses of any tourist. It will not be a deterrent to visitors from the United States if those Canadians, who may reasonably dis-

like this tax because it affects their pleasure or business, will refrain from the unfair and, I may add, unpatriotic use of the tourist argument against it. It is expected that the tax will yield $25,000,000 in the full year and $23,000,000 in the current fiscal year.

Related to the gasoline tax is an increased rate on automobiles. The Motor Vehicles Controller has imposed on Canadian producers a limited production quota for passenger cars from April 1 last. Imports of complete automobiles are on a 20 per cent quota. Under these circumstances, since cars available for sale are to be limited, it is proposed to increase the basic excise rate on passenger automobiles from 20 per cent to 25 per cent. The higher rates on values in excess of $900, already 40 and 80 per cent, are not to be changed. There is at present an excise tax on motor buses of 5 per cent and a maximum limit of $250 on the tax. At this time when we are having to grant permits for the importation of a great many buses, it is considered that, though it is not recommended that the rate be changed, the limit on the tax should be removed. The anticipated revenue from these changes is $3,000,000 in a full year and $2,700,000 in the current fiscal year.

I shall recommend also an excise tax of 10 per cent on railway, steamship, motor bus, and airplane fares. Travel between points for which the single fare is less than 50 cents will be exempt. Otherwise all fares collected in Canada will be subject to tax except that fares on passenger vessels will be taxable only between Canadian ports. I notice that the United States treasury is also recommending a tax on travel and we need anticipate no effect on our tourist trade. This tax is likely to produce about $6,500,000 in the full year and about $6,000,000 in 1941-42.

Very large expenditures are made each year by the Canadian people on moving picture entertainment. I note that the Dominion Bureau of Statistics reports paid admissions of over $34,000,000 in 1939. Currently, they are very much higher and the increase extends to every part of the country. It is proposed to impose an excise tax on the receipts of motion picture houses of 20 per cent. I expect to derive at least $8,000,000 from this tax in the full year and about $7,300,000 in the present fiscal year. There are many other amusements on which expenditures might legitimately be taxed but unfortunately the problems of administering a comprehensive amusement tax are very great. I shall recommend, however, a 5 per cent tax on the amounts wagered at horse-racing meets and anticipate that it will produce $1,000,000 in revenue, virtually all of which will be collected in this fiscal year.

The excise taxes on alcoholic drinks were raised substantially in September, 1939. Increases in these taxes may have serious effects on provincial revenues and render the problems of controlling illicit manufacture and sale extremely difficult. Viewing sales from the standpoint of revenue and relying upon the provinces to apply such regulations to the trade as are proper, I note that sales of spirits have not increased during the past year, the sales of wine have remained fairly stable despite the gradual disappearance of stocks of European wines, and beer sales have increased sharply. I, therefore, propose that the tax on malt be increased by 20 per cent from 10 cents a pound to 12 cents and that related taxes on beer and malt syrups be increased correspondingly. In respect of wines, the proposal is that the tax be increased from 15 to 40 cents per gallon and that on sparkling wines from $1.50 to $2.00. These increases should produce, in the full year, $3,500,000 on beer and $1,000,000 on wine or about $3,200,000 and $900,000 respectively in the current fiscal year.

Turning to another type of beverage, it is recommended that the excise tax on carbonic acid gas, the essential component of what are popularly known as "soft drinks," be increased. It has required some experience to learn the proportion which the present tax of 5 cents a pound bears to the sale price of the product. It is now proposed to increase the tax drastically, raising it from 5 cents to 25 cents a pound. At this rate, the tax will still not exceed the proposed United States tax of one cent a bottle and should produce an additional $2,000,000 of revenue, of which probably $1,900,000 will be collected in this fiscal year.

In addition to the above, there are a number of other proposals. The excise tax on playing cards is to be raised from 10 to 15 cents a pack. That on cosmetics and toilet preparations it is proposed to increase from 10 per cent to 25 per cent. It is recommended that the tax on long-distance telephone messages be increased from 6 to 10 per cent. To offset the match tax there is at present a tax of 20 per cent on lighters or 10 per cent if the lighter is a part of some other article. Since the excise tax on a wide range of mechanical, metal products for household and personal use is 25 per cent, it is proposed to apply the same rate to lighters whether combined with other articles or not. For the purpose of protecting the revenue, it is recommended that the excise on cigarette tubes be raised from 5 to 10 cents a hundred. It appears that the tube in contrast to the paper gives rise to some illicit commercial manufacture. It is estimated that these

changes will produce in the full year \$3,310,000, of which \$3,105,000 will be collected in 1941-42.

There is one more change in the indirect taxes. Having refrained during nearly two years of war from suggesting any discouragement to building, it has now been decided to recommend the removal of building materials from the list of exemptions under the sales tax. In the meantime, the provision for home improvement loans has been exhausted, the application of the National Housing Act has been narrowed, and the Wartime Housing Corporation has been set up to provide for the more urgent housing needs. At a time when we have many extraordinary needs for building construction, it is desirable to reserve, where possible, building operations for the post-war period. The withdrawals of this exemption, which I consider to be temporary, should provide \$15,000,000 in revenue, of which perhaps \$13,500,000 will be collected in this fiscal year.

I have already mentioned the increase in the tax on sugar from 1 cent to 2 cents a pound. A corresponding increase from ½ cent to 1 cent is recommended for glucose and grape sugar retroactive to the date when the sugar administrator increased the price of cane sugar. It is also recommended that the new rate of 2 cents a pound apply to corn syrup in tins of 10 pounds or less. To some slight degree, molasses is competitive with corn syrup, but in view of the extensive use of molasses in live stock feeds the tax is not extended to molasses.

These indirect taxes are not such as I should be comfortable in recommending in normal times but when the need for revenue is great and when the need for concentrating our energies on the successful prosecution of the war is so vitally necessary, we must have recourse to taxes which if not good taxes are better than others which we have rejected. Each of us will be affected by one or more of these taxes, but no one need pay all of them. If people choose to avoid some of these taxes by saving rather than spending, I shall be satisfied.

War Exchange Conservation Act

There are some changes to be recommended in the War Exchange Conservation Act which I shall enumerate. It is proposed to add black tea to part I of schedule I under which the house will recall, permits are refused. Adequate supplies of black tea can be obtained for sterling payment. Two other items, games and puzzles, and woven fabrics of cut pile are added to clear up anomalies. A more important change is recommended in the addition of vegetable oils to part II of schedule I. It is the intention to issue permits for the importation of vegetable oils, endeavouring to obtain as much as possible of them for sterling or Canadian dollars. The Department of National Revenue will be assisted in administering permits by the oils administrator under the Wartime Prices and Trade Board.

No goods are removed from the prohibited classification by the resolutions about to be tabled, although for technical reasons four items are being struck out of both part I of schedule I and out of the Customs Tariff.

Very substantial changes are recommended in respect of schedule II of the act, the schedule extending war-time treatment to imports from the United Kingdom. Though a large number of items are affected, I can explain briefly what is recommended. For the cotton and artificial silk items, now free under the act, no change is recommended. Certain items, on which the United Kingdom has asked for concessions, viz., cellophane, bathroom fixtures and earthenware, glass manufactures n.o.p., nickel-plated ware, and needles are to be made free, it is recommended under schedule II. It is further recommended that the British preferential rates be subject to a discount of 25 per cent in the case of woollen and worsted yarns, warps, fabrics, and clothing, and boots and shoes, that duties on fabrics and articles of linen, jute, hemp, and mixed fibres, oilcloth and linoleum, carpets, rugs, and carpeting, and all items (not already free) in groups I, V, VI, VII, VIII, IX and XI of the Customs Tariff (with the exception already mentioned of boots and shoes) be made subject to a discount of 50 per cent. No modification of the rates on liquors, sugar, tobacco, and silks is suggested. The result will be that, aside from the revenue items just mentioned, all imports from the United Kingdom will be free or subject to British preferential duties reduced by 50 or 25 per cent. The discounts proposed are to be in lieu of and not additional to the 10 per cent reduction now applicable for direct shipment. In the case of woollens the 25 per cent reduction will apply to the British preferential ad valorem and specific rates of duty but the operation of the limitation of the duty of 50 cents per pound as a maximum will remain unaffected.

These sweeping reductions are made to facilitate movement of goods from the United Kingdom. It is not expected that imports from the United Kingdom will increase significantly. The difficulties of shipping are well known. Labour in the United Kingdom is being withdrawn even from export trades to

war industries and in many cases materials are lacking. We are suggesting sweeping reductions for the express purpose of facilitating the importation of whatever goods under changing circumstances the United Kingdom wishes to export to us. It may be that she will find it desirable to curtail her exports to us. In such case, we shall do without them. We desire to leave the greatest possible scope for selling to us whatever goods she wishes to sell.

Tariff Proposals

The changes proposed in the Customs Tariff are of a minor character. The resolutions about to be tabled affect twenty-two items but a very small volume of trade. Seven new items will effect a reduction in the British preferential and intermediate tariffs on film wrapping paper, inedible gelatine, kyanite, strings for musical instruments, nickel rods for spark plug electrodes, oven thermostats and automatic oven lighters for gas stoves, and wire drawing dies in the rough.

Seven additions to existing items provide for reduced rates on carbon bisulphide mixtures for fumigating grain, machines and complete parts thereof for making boxes for fruits and vegetables, machinery and apparatus, of a class or kind not made in Canada, for maintenance and testing purposes in connection with gas and oil wells, infant identification beads, juvenile construction sets of rubber, cashew nut shell oil and spoon blanks.

For three items, covering essential oils, cut pile fabrics, and collodion, new wording is suggested to simplify administration.

For two items, covering ovens for commercial bakeries and veneer-making machinery, amendments are proposed to include in the items "complete parts".

In respect of two items relating to crayons, changes are proposed to carry out the intention of the United States trade agreement concerning the rate on chalk crayons.

Finally, in respect of tire fabric of rayon, the continuance of a special but higher rate is recommended.

Summarizing the revenue results of this lengthy recital of new and increased taxes, we expect to derive from them during a full year approximately $300,000,000 of additional revenue after making allowance for payments to the provinces under the agreement which I have proposed. During the balance of the current fiscal year we hope to collect nearly $250,000,000. The estimated yields of the various tax changes are recapitulated in a table which, with the consent of the house, I shall now place on *Hansard:*

—	Full Year	Balance of Current Fiscal Year 1941-42
	$	$
Yields from Increases in Existing Taxes—		
Graduated personal income tax	75,000,000	45,000,000
Excess profits tax (increase in minimum rate)	80,000,000	40,000,000
	155,000,000	85,000,000
Less payments to provinces after deducting yield from taxes to be imposed on banks, etc., and net reduction in subsidies	65,000,000	48,000,000
Net increase	90,000,000	37,000,000
National defence tax	80,000,000	55,000,000
Interest and dividends payable abroad	30,000,000	27,500,000
Automobiles and buses	3,000,000	2,700,000
Beer, malt and wine	4,500,000	4,100,000
Carbonic acid gas	2,000,000	1,900,000
Cosmetics and toilet preparations	2,000,000	1,900,000
Withdrawal of sales tax exemption on building materials	15,000,000	13,500,000
Sugar, glucose and corn syrup	12,000,000	12,000,000
Other excise taxes	1,310,000	1,205,000
Increase in collections of personal income taxes resulting from change in date when payment becomes due and from change in instalment payment procedure	....	45,000,000
Yields from New Taxes—		
Succession duties	20,000,000	10,000,000
Gasoline	25,000,000	23,000,000
Passenger transportation	6,500,000	6,000,000
Motion picture entertainment	8,000,000	7,300,000
Race tracks	1,000,000	1,000,000
	300,310,000	249,105,000

Conclusion

In appraising the extent to which we are applying a pay-as-you-go policy, it is appropriate to consider total governmental revenues in relation to total governmental expenditures. While the assistance which we must give to enable Great Britain to meet the deficit in her balance of payments with Canada must be financed, it is not in quite the same category as actual governmental expenditures. This is particularly true of that portion which is used to repatriate securities. If our estimates of the yields of the new and increased taxes during the balance of the current fiscal year are reasonably accurate, the dominion's total revenues during 1941-42 should be approximately $1,400,000,000. This will leave a budgetary deficit of $365,000,000 or $515,000,000 according as the lower or higher of the estimates of war expenditure is realized. Under the lower estimate we shall have paid 79 per cent of our war and non-war budgetary expenditures out of revenue, and under the higher we shall have paid 73 per cent. On this basis I think it will be agreed that the dominion is attempting to carry the pay-as-you-go policy as far as is reasonably practicable.

The financial policy set forth in this budget is not framed lightly nor are the financial tasks still to be performed belittled. I offer this budget to the house as the sober and necessary counterpart of our decision to stand side by side with our sister nations and allies and with the welcome and powerful aid of the United States to uphold the cause on which we believe the future of civilized, humane, and Christian living to depend.

We do not face physical destruction nor live under the terror that flies by night. How small are the changes that have come over our day-to-day life. Some of us are being forced to live more simply, to plan our expenditures more carefully, and to see where we can economize for the time being on the maintenance of our homes and the physical equipment of living. Some of us have larger incomes after taxes than before and are being asked to postpone the spending of those increases until, after the war is over, we can obtain what we desire without interfering with the war effort and give employment which will be needed then as it is not now.

The business community is experiencing great activity and, after taxes, in most cases reduced profits. Management is having to shift operations to produce new products and to avoid the use of materials that are hard to obtain. Labour has encountered longer hours and has, in many cases, changed occupations or moved to new areas. The finding of jobs has become an easier matter.

The financial task of the Canadian people in this fiscal year is, by any precedent, colossal, but it is, in no sense, impracticable. It will require strict economy, but not deprivation. It will require hard work and the foregoing of profits which pass through our treasuries into that of the nation, but it will not endanger the soundness of our business structure nor the value of our resources. It will require intense and patient effort for the duration of the war but it will result in a secure future. As the Canadian people believe that they are engaged in a war to defend the highest qualities of our common life from destruction, we can accomplish this financial task, not with ease, but without catastrophe and with triumph too.

RESOLUTIONS

Mr. Speaker, I desire to give notice that when we are in committee of ways and means I shall move the following resolutions:

INCOME WAR TAX ACT

Resolved, that it is expedient to introduce a measure to amend the Income War Tax Act and to provide:—

1. That the rates of tax applicable to persons other than corporations shall be increased to the rates of tax set forth in the following schedules:—

A. Rates of tax applicable to persons other than corporations and joint stock companies:

On the first $1,000 of net income or any portion thereof in excess of exemptions, 15 per centum, or

$150 upon net income of $1,000 and 20 per centum upon the amount by which the income exceeds $1,000 and does not exceed $2,000, or

$350 upon net income of $2,000, and 25 per centum upon the amount by which the income exceeds $2,000 and does not exceed $3,000, or

$600 upon net income of $3,000, and 30 per centum upon the amount by which the income exceeds $3,000 and does not exceed $4,000, or

$900 upon net income of $4,000, and 33 per centum upon the amount by which the income exceeds $4,000 and does not exceed $5,000, or

$1,230 upon net income of $5,000, and 36 per centum upon the amount by which the income exceeds $5,000 and does not exceed $6,000, or

$1,590 upon net income of $6,000, and 38 per centum upon the amount by which the income exceeds $6,000 and does not exceed $7,000, or

$1,970 upon net income of $7,000, and 40 per centum upon the amount by which the income exceeds $7,000 and does not exceed $8,000, or

$2,370 upon net income of $8,000 and 42 per centum upon the amount by which the income exceeds $8,000 and does not exceed $9,000, or

$2,790 upon net income of $9,000, and 44 per centum upon the amount by which the income exceeds $9,000 and does not exceed $10,000, or

$3,230 upon net income of $10,000, and 47 per centum upon the amount by which the income exceeds $10,000 and does not exceed $15,000, or

$5,580 upon net income of $15,000, and 50 per centum upon the amount by which the income exceeds $15,000 and does not exceed $20,000, or

$8,080 upon net income of $20,000 and 53 per centum upon the amount by which the income exceeds $20,000 and does not exceed $30,000, or

$13,380 upon net income of $30,000, and 55 per centum upon the amount by which the income exceeds $30,000 and does not exceed $40,000, or

$18,880 upon net income of $40,000 and 57 per centum upon the amount by which the income exceeds $40,000 and does not exceed $50,000, or

$24,580 upon net income of $50,000 and 59 per centum upon the amount by which the income exceeds $50,000 and does not exceed $75,000, or

$39,330 upon net income of $75,000, and 63 per centum upon the amount by which the income exceeds $75,000 and does not exceed $100,000, or

$55,080 upon net income of $100,000, and 67 per centum upon the amount by which the income exceeds $100,000 and does not exceed $150,000, or

$88,580 upon net income of $150,000, and 70 per centum upon the amount by which the income exceeds $150,000 and does not exceed $200,000, or

$123,580 upon net income of $200,000, and 75 per centum upon the amount by which the income exceeds $200,000 and does not exceed $300,000, or

$198,580 upon net income of $300,000, and 80 per centum upon the amount by which the income exceeds $300,000 and does not exceed $500,000, or

$358,580 upon net income of $500,000, and 85 per centum upon the amount by which the income exceeds $500,000.

2. That paragraph AA of the first schedule to the act be repealed and in lieu thereof there be imposed a tax of 4 per centum on the investment income defined to include dividends, interest, rents, royalties and other like income and not to include salary, wages, fees or other like income from any office or employment of profit or income derived from the carrying on of a trade, vocation or calling.

3. That the schedule of taxes payable under section 88 of the act on gifts made after April 29, 1941, be repealed and in lieu thereof there be substituted the following schedule:

On gifts up to and including $5,000—7 per cent.

On gifts exceeding—

$5,000 but not exceeding $10,000—8 per cent.
$10.000 but not exceeding $20,000—9 per cent.
$20,000 but not exceeding $30,000—10 per cent.
$30,000 but not exceeding $40,000—11 per cent.
$40,000 but not exceeding $50,000—12 per cent.
$50,000 but not exceeding $75,000—13 per cent.
$75,000 but not exceeding $100,000—14 per cent.
$100,000 but not exceeding $150,000—15 per cent.
$150,000 but not exceeding $200.000—16 per cent.
$200,000 but not exceeding $250,000—17 per cent.
$250,000 but not exceeding $300,000—18 per cent.
$300,000 but not exceeding $400,000—19 per cent.
$400,000 but not exceeding $500,000—20 per cent.
$500,000 but not exceeding $600,000—21 per cent.
$600,000 but not exceeding $700,000—22 per cent.
$700,000 but not exceeding $800,000—23 per cent.
$800,000 but not exceeding $1,000,000—24 per cent.
$1,000,000—25 per cent.

and that section 88 (8) (e) of the act be repealed.

4. That the rates of national defence tax be increased from 2 per centum to 5 per centum wherever 2 per centum is mentioned and from 3 per centum to 7 per centum wherever 3 per centum is mentioned, and that these rates be effective from the first day of July, 1941.

5. That the amount of $600 mentioned in the national defence tax section be raised to $660 for the calendar year 1941 and for each year thereafter.

6. That the maximum allowance for a dependent under the national defence tax be $4 for the calendar year 1940; $14 for the calendar year 1941 and $20 for each year thereafter.

7. That the tax imposed by section 9B(1) shall not be exigible if no part of the premium is paid to the taxpayer.

8. That the rate of tax imposed by section 9B(2) of the act on all non-residents be increased from 5 per centum to 15 per centum and that the exemption in respect of interest payable in a currency other than Canadian be repealed.

9. That the rate of tax applicable to non-resident-owned investment corporations be increased from 9 per centum to 22½ per centum.

10. That the tax of five per centum on non-resident persons, other than corporations, in respect of the total amount of the royalties, rentals or similar payments for the use in Canada of patents, real or personal property, or for anything used or sold in Canada, be increased to 15 per centum.

11. That the date of filing annual returns of income by taxpayers, other than corporations, be the 31st day of March in each year in lieu of the 30th April as heretofore.

12. (a) That the provision granting a deduction not exceeding 50 per centum of the net taxable income of any taxpayer which has been paid to any patriotic organization shall be repealed.

(b) That donations to charitable organizations described in the act, up to 10 per centum of the net income of any taxpayer other than a corporation, be allowed, provided that this 10 per centum may be increased to 40 per centum of the taxpayer's net income in respect of gifts to the Canadian War Services Fund if subscribed on or before April 7, 1941, and paid on or before December 31, 1941.

13. That donations to charitable organizations made in 1942 and during any fiscal period ending therein or any fiscal period thereafter by any corporation be allowed up to five per centum of the net income of such corporation,

provided that this five per centum may be increased to thirty-five per centum of the corporate net income in respect of gifts to the Canadian War Services Fund if subscribed on or before April 7, 1941, an dpaid on or before December 31, 1941.

14. That the exemptions provided in paragraphs (c), (e) and (i) of subsection 1 of section 5 be allowed only if such dependents are maintained in Canada or within the territory composing the British Commonwealth of Nations or in a country contiguous to Canada; and similarly that for the purposes of national defence tax a taxpayer's marital status and any credit to which he is entitled for dependents be allowed only in respect of dependents maintained in Canada or within the territory composing the British Commonwealth of Nations or in a country contiguous to Canada.

15. That any taxpayer, other than a corporation, who enters upon a monthly instalment basis of tax payment on or before the 30th September each year, may pay, without interest, in respect of the income of that year, provided at least

one-twelfth of the estimated tax based on the income of the prior year is paid in each of the months September, October, November and December, and

one-eighth of the unpaid balance of the newly estimated tax based on the income of the calendar year in respect of which the tax is payable is paid in each of the months January to August inclusive.

16. That any corporation which enters upon a monthly instalment basis of tax payment before the commencement of the third month before the close of the fiscal period may pay, without interest, in respect of the income of that year, provided that at least

one-twelfth of the estimated tax based on the income of the prior year is paid in each of the four months immediately prior to the close of the said fiscal period, and

one-eighth of the unpaid balance of the newly estimated tax based on the income of the fiscal year in respect of which the tax is payable is paid in each of the immediately succeeding eight months following the close of the fiscal period.

17. That the resolutions numbered 1, 2, 5, 9, 11, 12, 14 and 15 shall be applicable to the income of the 1941 taxation period and fiscal periods ending therein and all subsequent periods.

18. That any enactment founded on resolutions numbered 3, 7, 8, 10 and 16 shall come into force on April 30, 1941.

EXCESS PROFITS TAX ACT

Resolved, that it is expedient to introduce a measure to amend the Excess Profits Tax Act, and to provide:

1. That the definition of profits in the case of a corporation be amended if and to the extent that the corporation is subject to the tax on excess profits set out in the second part of the second schedule so as to exclude from profits for such purpose any dividends deemed to have been received by it as a result of distribution of assets on the winding up or discontinuance of business of any other Canadian corporation, which distribution is by section 19 of the Income War Tax Act deemed to be a dividend and to be taxable income of the company receiving the said dividend, provided that if the company receiving the said dividend is owned to the extent of fifty per centum or more of all its issued capital stock and bonds and any other type of security by or on behalf of twenty-five individual stockholders or security holders or less or is in fact controlled by such number of individual stockholders, this provision shall not apply.

2. That the definition of standard period, and also of standard profits, be amended to require the taxpayer to apportion to the four calendar years, 1936, 1937, 1938 and 1939 the profits of their corresponding fiscal periods which do not coincide with the calendar year. The apportionment must be on an equal daily basis

3. That the definition of standard period, and also of standard profits, be amended to allow standard profits to be computed from the time of actual commencement of business rather than from the legal date of commencement of business, the date of actual commencement to be determined by the minister in his discretion in the light of the circumstances of the particular taxpayer.

4. That the definition of standard period be amended to give the taxpayer the choice of his three best years if the profits of his fourth standard year after adjusting for capital additions or withdrawals were less than fifty per centum of the average of the profits of the other standard years.

In the case of taxpayers who have been in business only three out of the four standard years and the profits of one of the three years after adjusting for capital additions or withdrawals were below fifty per centum of the average of the other two years the proposed amendment will allow them to use the profits of the two best years in computing their standard.

5. That the definition of standard profits be amended by adding thereto a proviso that in no case shall a taxpayer's standard profits be less than five thousand dollars.

6. That the adjustment to standard profits by reference to any increase or decrease in depreciation allowances or other charges as provided by paragraph (d) of subsection 1 of section 4 be repealed.

7. That the adjustment to standard profits by reference to increases or decreases in capital be amended to provide for an adjustment at a fixed rate of seven and one-half per centum on the capital change, with the proviso that if new capital to the extent of thirty-three and one-third per centum has been added since the standard period the taxpayer will have the option of being considered a new business.

8. That the procedure for a depressed business applying to have its standard profits determined by the board of referees on a capital-standard basis be altered so that the taxpayer may file his return and pay his tax on the basis of a standard profits computed by the taxpayer himself, at a percentage on capital which he deems fair and reasonable but being not more than ten per centum on "capital employed" as defined in the act, with the right of the minister to refer any case to the board of referees to have the standard profits finally determined by that body.

9. That power be given to the board of referees in the case of both new businesses and depressed businesses to ascertain a fair and reasonable standard profits on some basis other

than the capital-standard basis in those cases where the capital employed in the business is so small when compared with the earning power of the business or where other special circumstances of the taxpayer are such that to utilize the capital-standard basis would result in an unjustifiable hardship or would create extreme discrimination or jeopardize the continued existence of the business of the taxpayer.

10. That the inventory-reserve provisions in the act be amended:

(a) to give the taxpayer the right to provide against a decline in inventory values having regard to a normal quantity of stock in trade as indicated by the quantity on hand during the standard period;

(b) to give the taxpayer the right to provide against a decline in inventory values either to the prices obtaining at the close of his 1939 period or to the prices obtaining during the month of August, 1939; and

(c) to provide that a taxpayer who has any unutilized inventory reserve on hand at the end of the year when this act terminates shall have only the year following the said year of termination in which to utilize such reserve against any possible price decline and must add any unutilized portion of such reserve existing at the beginning of the second year following the said year of termination to the profits of the last year of the application to the taxpayer of this act.

11. That the exemption from the provisions of this act given to taxpayers with profits of five thousand dollars or less be amended by a proviso to the effect that in the case of taxpayers with profits above five thousand dollars the tax imposed by the act shall not reduce the profits below five thousand dollars.

12. That the profits of diversified investment companies the capital of which is to the extent of eighty per centum or more invested in stocks, bonds or securities, and the gross income of which is to the extent of ninety-five per centum or more derived from dividends or interest on such investments, shall be exempt from taxation under this act provided that not more than 5 per cent of the capital of such companies is invested in stock, bonds or other securities of any one company or debtor, and provided further that the shares of such diversified investment companies have been offered for public subscription or are listed on any recognized stock exchange in Canada or elsewhere, and provided further that each year the profits of such diversified investment companies have been distributed to the extent of eighty-five per centum or more to its shareholders.

13. That the allowance for excess profits taxes and income taxes paid to Great Britain, other British dominions or dependencies or to any foreign country allowing reciprocal deduction with respect to Canadian-paid taxes, be enlarged to provide a combined deduction of the British or foreign income and excess profits taxes from the combined liabilities to Canada for income and excess profits taxes.

14. That the provision for time and manner of payment of any tax exigible under the act be amended in accordance with the amendment proposed for the Income War Tax Act in this respect, namely to provide an optional instalment basis of payment with respect to taxes on 1940 income and fiscal periods ending December 31, 1940, and also to provide an optional instalment basis of payment for taxes on the profits of 1941 and future years.

15. That the definition of capital be amended to require the deduction from the original asset values of the total amount of depreciation which has been taken into account in computing net income or loss for income tax purposes plus any accumulated depreciation reserves as at January, 1917, as recognized by the minister for purposes of the Income War Tax Act, and further that the definition of capital be amended to require the deduction of such amount of depletion as the board of referees deems fair and reasonable.

16. That the definition of capital be amended to enable the non-interest-bearing advances from parent to subsidiary corporations, which advances are of a permanent nature and in fact represent invested capital actually employed rather than borrowed capital, to rank as equity capital rather than debts of the subsidiary.

17. That the requirement in the first schedule that dividends paid during the taxation year shall constitute a deduction from the capital employed at the commencement of the period to the extent of one-half the dividends, shall be amended to make it clear that this applies only to cash dividends and not to stock dividends.

18. That the rate of tax on profits provided by the first part of the second schedule shall be increased from twelve per centum to twenty-two per centum.

19. That all proposals above mentioned except proposals 12, 14 and 18 shall apply to the profits of the year 1940 and the profits of fiscal periods and portions thereof ending in 1940 and to the profits of all years and fiscal periods thereafter, and that proposals 12 and 18 shall apply to the profits of the year 1941 and of fiscal periods ending in 1941, and to the profits of all years and fiscal periods thereafter.

20. That every person liable to tax under the Excess Profits Tax Act in respect of the 1940 taxation period shall have until the 30th April, 1941, to estimate and pay their excess profits tax for 1940 without interest. Thereafter interest will be paid as in the Income War Tax Act provided, as if the fiscal period of all such companies had ended on 31st December, 1941.

SPECIAL WAR REVENUE ACT

Resolved, that it is expedient to introduce a measure to amend the Special War Revenue Act and to provide:

1. That the definition of "British company" in section thirteen of the said act be amended by deleting therefrom the following words "and includes any association of persons formed in the said Kingdom or in any such dominion or possession on the plan known as Lloyds whereby each associate underwriter becomes liable for a stated, limited or proportionate part of the whole amount insured by a policy."

2. That subsection one of section sixteen of the said act be amended by deleting the words "or of any province thereof" where they appear in the fourteenth line thereof.

3. That the tax on long distance telephone calls be increased from six per cent of the charge made to ten per cent; provided however that upon long distance telephone calls made from any public pay station there shall be paid in lieu of the tax hereinbefore provided

for the sum of five cents for each such call for which a charge of more than twenty-five cents and not more than fifty cents is made and five cents for each additional charge of fifty cents or any fraction of fifty cents; and provided further that the tax imposed shall in no case be greater than fifty cents on any one call.

4. That part V of the said act be amended to provide that every purchaser of a ticket or right entitling the purchaser to transportation by railway, bus or aircraft to any place in or outside of Canada or by vessel between places in Canada or from a place in Canada and return thereto shall, in addition to the regular charge for the ticket or right, pay to the person selling such ticket or right, for the consolidated revenue fund in addition to the price paid therefor, a tax equal to ten per cent of the said price, provided that such tax shall not apply on the charge for a ticket or right of transportation, if the regular one way charge for such ticket or right to any place in or outside of Canada is fifty cents or less.

5. That the excise tax on cigarette paper tubes be increased from five cents for each one hundred cigarette paper tubes or fraction thereof to ten cents.

6. That there shall be imposed, levied and collected an excise tax of three cents per imperial gallon on gasoline imported or produced or manufactured in Canada; and that where the gasoline is imported, such excise tax shall be paid by the importer or transferee who takes the gasoline out of bond for consumption at the time when the gasoline is imported or taken out of warehouse for consumption, and where the gasoline is manufactured or produced and sold in Canada, such excise tax shall be paid by the manufacturer or producer at the time of delivery of such gasoline to the purchaser thereof.

7. That the excise tax on playing cards be increased from ten cents per pack to fifteen cents per pack.

8. That the excise taxes on wines of all kinds, except sparkling wines, containing not more than forty per cent of proof spirit be increased from fifteen cents per gallon to forty cents per gallon, and that the excise tax on champagne and all other sparkling wines be increased from one dollar and fifty cents per gallon to two dollars per gallon.

9. That there shall be imposed, levied and collected an excise tax of twenty per cent on the admission price to a moving picture theatre, payable by the moving picture exhibitor.

10. That there shall be imposed, levied and collected an excise tax of five per cent of the total amount of bets made through the agency of a pari mutuel system on any horse race run at a lawful race meeting, such tax to be payable by the person conducting the race meeting.

11. That paragraphs (a) and (b) of section one of schedule I to the said act be repealed and the following substituted therefor:—

"1. (a) Automobiles adapted or adaptable for passenger use, with seating capacity for not more than ten persons, each valued at $900 or less—25 per cent.

Over $900 but not more than $1,200—25 per cent on $900 plus 40 per cent on the amount in excess of $900.

Over $1,200—25 per cent on $900 plus 40 per cent on $300 plus 80 per cent on the amount in excess of $1,200.

(b) Automobiles adapted or adaptable for passenger use with seating capacity for more than ten persons—5 per cent"

and that the first proviso to the said section be repealed, which reads as follows:—

"Provided that the tax collected under paragraph (b) above shall in no case exceed $250 per automobile;"

12. That the tax on toilet articles provided for in section two of schedule I to the said act be increased from ten per cent to twenty-five per cent.

13. That the tax on lighters provided for in schedule I to the said act whether or not combined with pencils, cigarette or other cases, be increased to twenty-five per cent.

14. That section five of schedule I to the said act be amended by striking out the words

"Cameras, phonographs, radio broadcast receiving sets and tubes therefor" and replacing them by the following words:

"Cameras, phonographs, record playing devices, radio broadcasting receiving sets and tubes therefor".

15. That paragraph (b) of section six of schedule I to the said act be amended by inserting after the word "refrigerators" the words "including coils, condensing units, cabinets, boxes, evaporators and expansion valves therefor."

16. That paragraph (d) of section six of schedule I to the said act be amended by inserting after the words "permanent waving machines" the words "and spacers or clamps, rods and heaters therefor."

17. That section two of schedule II to the said act be amended by repealing paragraphs (a) and (b) thereof and substituting therefor the following:—

"2. Sugar, etc.:—

(a) Materials enumerated in customs tariff items 134, 135, 135 (a), 135 (b), 139 (except glucose and grape sugar), 140 (except molasses) invert sugar and syrup—two cents per pound;

(b) Glucose and grape sugar (except when for use exclusively in the manufacture of leather and artificial silk)—one cent per pound;"

and striking out the proviso thereto reading as follows:—

"Provided that the tax hereby imposed under paragraph (a) shall not apply to the materials enumerated in customs tariff items 139 and 140, when sold in packages containing not more than ten pounds each."

18. That the tax on carbonic acid gas and similar preparations used for aerating non-alcoholic beverages provided for in section four of schedule II to the said act be increased from five cents per pound to twenty-five cents per pound.

19. That schedule III to the said act setting out the exemptions from sales tax be amended by striking out under the heading "Farm and Forest" in the seventeenth and eighteenth lines the words "Forest products, when produced and sold by the individual settler or farmer" and replacing them by the following words:

"Forest products, not to include lumber, when produced and sold by the individual settler or farmer;"

20. That the said schedule III be further amended by deleting therefrom the items under the caption "Building materials".

21. That any enactment founded on this resolution shall be deemed to have come into force on the thirtieth day of April, one thousand nine hundred and forty-one and to have applied on all goods imported or taken out of warehouse for consumption on and after that day and to have applied to goods previously imported for which no entry for consumption was made before that day; provided however that any enactment increasing the tax on glucose and grape sugar in accordance with resolution No. 17 shall be deemed to have come into force on March 31, 1941.

THE EXCISE ACT

Resolved, that it is expedient to introduce a measure to amend the schedule to the Excise Act, 1934, and to provide:

1. That sections 3, 4 and 5 of the schedule to the said act be repealed and the following substituted therefor:

"3. Beer.

Upon all beer or malt liquor:—

(a) brewed in whole or in part from any substance other than malt, per gallon—thirty-five cents;

(b) imported into Canada and entered for consumption, per gallon—twelve cents.

4. Malt.

Upon all malt:—

(a) manufactured or produced in Canada and screened (that is, malt from which the coomings have been removed) subject to the regulations of the Governor in Council with respect to absorption of moisture in warehouse, per pound—twelve cents;

(b) imported into Canada and entered for consumption, per pound—twelve cents.

5. Malt syrup.

Upon all malt syrup as defined by paragraph (c) of section six of the Excise Act, 1934:—

(a) manufactured or produced in Canada, per pound—eighteen cents;

(b) imported into Canada and entered for consumption, per pound—thirty cents."

2. That any enactment founded on paragraph one of this resolution shall come into force on the thirtieth day of April, one thousand nine hundred and forty-one.

SUCCESSION DUTIES ACT

Resolved, that it is expedient to enact a Succession Duties Act to provide *inter alia:*

1. That succession duties be levied upon or in respect of the following, that is to say:

(a) The succession to property, wherever situated, and beneficial interests therein, except real property situated outside of Canada, where the deceased was at the time of his death domiciled in Canada or in one of the provinces thereof;

(b) The succession to property situated in Canada, or to beneficial interests therein, where the deceased was at the time of his death domiciled outside of Canada.

2. That, in addition to the properties owned by the deceased at his death, the succession shall be deemed to include, for purposes of taxation, the following properties, namely:

(a) Property transferred by the deceased in his lifetime in contemplation of death;

(b) Property transferred by way of *donatio mortis causa;*

(c) Property transferred by gift in the lifetime of the deceased after April 29, 1941, and within three years prior to his death;

(d) Property transferred by gift in the lifetime of the deceased where benefits are reserved to the deceased during his lifetime;

(e) Property held jointly by the deceased and one or more persons and payable to or passing to the survivor or survivors, except that part of such property which was contributed by the survivor or survivors, provided that where the joint tenancy or holding is created by a person other than the deceased and the survivor or survivors, such property shall be deemed to have been contributed to equally by the deceased and the survivor or equally by the deceased and each of the survivors;

(f) Property comprised in a settlement;

(g) Annuities or other interests purchased or provided by the deceased to the extent of the beneficial interest arising on his death;

(h) Money received or receivable under policies of insurance effected by the deceased or by a personal corporation on his life in proportion to the premiums paid by the deceased or by such personal corporation;

(i) Property of which the deceased was at the time of his death competent to dispose;

(j) Property transferred to or settled on any person after April 29, 1941, by the deceased and within three years before his death, in consideration of marriage;

(k) Property transferred for nominal or insufficient consideration to the extent of the difference between the consideration and the value thereof;

(l) Estates in dower or by the courtesy.

3. That the rates of taxation be based upon the following factors, namely:

(a) The "aggregate value" of the succession, that is to say, the fair market value of all property, wherever situated, owned by the deceased at the time of his death together with the fair market value of the properties mentioned in paragraph two of this resolution, after funeral expenses and debts are deducted therefrom;

(b) The value of the individual property or benefit passing to each successor; and

(c) The relationship, if any, existing between the successor and the deceased.

4. That, for the purposes of taxation, the successors or beneficiaries shall be divided into four classes, as follows:

(a) Class A.—The widow of the deceased, any child under eighteen years of age at the date of the death of the deceased, and any child who at that date was dependent upon the deceased for support on account of mental or physical infirmity;

(b) Class B.—The grandfather, grandmother, father, mother, husband, son-in-law, or daughter-in-law of the deceased or a child of the deceased eighteen years of age and over at the date of the death of the deceased, and who, at that date, was not dependent upon the deceased for support on account of mental or physical infirmity;

(c) Class C.—A lineal ancestor of the deceased (except the grandfather, grandmother, father or mother) a brother or sister of the deceased or any descendant of a brother or sister, or a brother or sister of the father or mother of the deceased or any descendant of any such brother or sister;

(d) Class D.—Any person in any other degree of consanguinity to the deceased than as previously mentioned, or a stranger in blood to the deceased.

5. That the rates of taxation shall be according to the following scale for the values mentioned, the rates for intervening amounts to be specified in greater detail in the bill:

RATES

Aggregate value of the succession to property passing in the case of initial duties dependent on such value	Initial rates dependent on aggregate value	Value of individual benefits, including exemptions in the case of additional duties	Additional rates dependent on value of the individual benefits, including exemptions			
			Class A	Class B	Class C	Class D
$	%	$	%	%	%	%
1,000	....	1,000	....	1	2	2·5
5,000	....	5,000	2	2	2·5	3
10,000	....	10,000	2·25	2·5	3	3·5
25,000	0·5	25,000	2·5	3	3·5	4
35,000	1	35,000	3	3·5	4	5
50,000	1·5	50,000	3·5	4	5	6
75,000	2	75,000	4	5	6	7
100,000	2·5	100,000	5	6	7	8
125,000	3	125,000	6	7	8	9
150,000	3·5	150,000	7	8	9	10
200,000	4	200,000	8	9	10	11
300,000	4·5	300,000	9	10	11	12
400,000	5	400,000	10	11	12	13
500,000	5·5	500,000	11	12	13	14
750,000	6	750,000	12	13	14	15
1,000,000	6·5	1,000,000	13	14	15	16
1,500,000	7	1,500,000	14	15	16	17
2,000,000	8	2,000,000	15	16	17	17
3,000,000	9	3,000,000	16	17	17	17
5,000,000	10	5,000,000	17	17	17	17

6. That the exemptions from duty under the said Succession Duties Act shall be as follows:—

(a) Where the whole property passing does not exceed $5,000 no duties shall be payable;

(b) Property passing to or for the benefit of the widow of the deceased to the extent of the first $20,000 in value or amount;

(c) Property passing to or for the benefit of the widow to the extent of $5,000 for each child of the deceased under 18 years of age at the time of the death of the deceased or dependent upon him for support at that time, if such child does not benefit in respect of property passing on the death of the deceased, provided that if such child does benefit the exemption shall be $5,000 less the amount of the benefit;

(d) Property passing to or for the benefit of a child of the deceased under the age of eighteen years or dependent upon him for support at that time on account of mental or physical infirmity to the extent of the first $5,000 in value or amount;

(e) Property passing to or for the benefit of the orphan child or children of the deceased under eighteen years of age at the time of his death or dependent upon him for support at that time on account of mental or physical infirmity, where such property does not exceed $15,000 in value or amount, provided that this exemption shall be in addition to those provided for in the preceding paragraph (d), and provided further that where more than one child benefits the exemption herein provided for shall be divided among such children in proportion to the value of the property or benefit passing to each of them;

(f) If the deceased died from wounds inflicted, accident occurring or disease contracted on active service with the Canadian naval, military or air forces in or beyond Canada, in such circumstances that if the deceased left a widow she would be entitled to receive a pension in respect of his death under the Canadian Pension Act; (i) the exemptions granted in the preceding paragraphs (b), (c), (d) and (e) shall be increased by 50 per cent; (ii) the amount of the tax payable in respect of the succession by persons in class A and class B shall be reduced to the sum which, if accumulated at compound interest at the rate of 3 per cent per annum from the date of death with half-yearly rests, would at the expiration of the period of the normal expectation of life of a person of the age of the deceased at the time of death (calculated in accordance with approved mortality tables) amount to the tax which would otherwise be payable;

(g) Property passing to any one person and not exceeding $1,000 in value or amount;

(h) Property passing to or for the benefit of any charitable organization in Canada operated exclusively as such and not operated for the benefit or private gain or profit of any person, member or shareholder thereof;

(i) Property passing to or for the benefit of the Dominion of Canada or any province or political subdivision thereof;

(j) Property given by the deceased in his lifetime and representing the ordinary or normal expenditure of the deceased;

(k) Property on which gift tax has been paid under the provisions of the Income War Tax Act, except to the extent to which the duty payable under the act exceeds the gift tax so paid.

7. That there shall be a provision in the said Succession Duties Act making the executor or administrator liable in his representative capacity for all the duties imposed thereby, and making each successor personally liable for the duty on the share of the property or benefit passing to him, with the proviso that if the executor or administrator pays the duty he shall have the right to deduct the same from the property or benefit passing to the successor.

8. That any enactment founded on the foregoing resolution shall come into force on the date when it is assented to and shall apply to deaths occurring after that date.

WAR EXCHANGE CONSERVATION ACT, 1940

Resolved, that it is expedient to introduce a measure to amend the War Exchange Conservation Act, 1940, and to provide:

1. That section 7 of the said act be repealed and the following substituted therefor:

"7. (1) Goods enumerated in schedule two to this act, the growth, produce or manufacture of the United Kingdom, when imported into Canada in a manner and under conditions which entitle such goods to entry under the British preferential tariff of Canada, shall be exempt from the rates of duty set out in schedule A to the customs tariff and shall, in lieu thereof, be free of duties of customs.

(2) Goods enumerated in this subsection (other than those enumerated in schedule two to this act) the growth, produce or manufacture of the United Kingdom, when imported into Canada in a manner and under conditions which entitle such goods to entry under the British preferential tariff of Canada, shall be accorded discounts on the amount of duties or customs computed under the British preferential tariff as follows:

Goods enumerated in items 551, 551a, 552, 553, 554, 554b, 554d, 554e, 555, 568, 568a (i), 611 and 611a of the customs tariff—25 per cent.

Goods enumerated in groups I, V, VI, VII, VIII, IX, X, and XI of the customs tariff (but not to include goods enumerated in tariff items 551, 551a, 552, 553, 554, 554b, 554d, 554e, 555, 568, 568a(i), 611 and 611a, and not to include fabrics composed wholly or in part of silk or goods of any kind in which silk is the component material of chief value)—50 per cent.

Provided, that the discounts established by this subsection shall be accorded in lieu of, not in addition to, any discount to which the said goods otherwise might be entitled under section 5 of the customs tariff."

2. That part one of schedule one to the said act be amended by deleting therefrom items 560d, 560e, 569d and 634 (ii).

3. That part one of schedule one to the said act be further amended by inserting therein the following items and enumerations:

ex 28a, ex 29a—Black tea.

ex 506, et al—Games and puzzles; mirror frames.

560c—Woven fabrics with cut pile, whether or not coated or impregnated, wholly or in part of silk or artificial silk, but not containing wool, n.o.p.

Provided, that any enactment founded on this resolution shall not apply to goods which on or before the twenty-ninth day of April, 1941, were in Canada or in transit to Canada.

4. That part two of schedule one to the said act be amended by inserting therein the following item:

ex 711, et al—Vegetable oils provided for in items 258, 259a, 259b, 262, 266, 276, 276a, 276b, 277, 277a, 278, 278a, 278b, 278c, 278d, 280, ex 711, 824 and 831 of the customs tariff.

Provided, that any enactment founded on this resolution shall not apply to goods which on or before the twenty-ninth day of April, 1941, were in Canada or in transit to Canada.

5. That schedule two to the said act be amended by deleting therefrom tariff items 220(a) and (b), 228, ex 284, 288, 429(b) and (e), 439, 439a, 445f, 445g, 445k, 451b, 572 and 573, and by inserting therein the following items and enumerations:

Item 238e: Regenerated cellulose, and cellulose acetate, transparent, in sheets, not printed, and manufactures of regenerated cellulose or of cellulose acetate, n.o.p.—Free.

Item 289: Baths, bathtubs, basins, closets, closet seats and covers, closet tanks, lavatories, urinals, sinks and laundry tubs of earthenware, stone, cement, clay or other material, n.o.p.—Free.

Item 326a: Manufactures of glass, n.o.p.—Free.

Item 362c: Nickel-plated ware, gilt or electro-plated ware, n.o.p.—Free.

Item 451a(ii): Needles, of any material or kind, n.o.p.—Free.

6. That any enactment founded on these resolutions shall be deemed to have come into force on the thirtieth day of April, 1941, and to have applied to goods imported or taken out of warehouse for consumption on or after that date and to have applied to goods previously imported for which no entry for consumption was made before the said date.

CUSTOMS TARIFF

1. Resolved, that schedule A to the customs tariff, being chapter forty-four of the Revised Statutes of Canada, 1927, as amended by chapter seventeen of the statutes of 1928, chapter thirty-nine of the statutes of 1929, chapter thirteen of the statutes of 1930 (first session), chapter three of the statutes of 1930 (second session), chapter thirty of the statutes of 1931, chapter forty-one of the statutes of 1932, chapters six and thirty-seven of the statutes of 1932-33, chapters thirty-two and forty-nine of the statutes of 1934, chapter twenty-eight of the statutes of 1935, chapter thirty-one of the statutes of 1936, chapters twenty-five and twenty-six of the statutes of 1937, chapter forty-one of the statutes of 1939 (first session), chapter two of the statutes of 1939 (second session) and chapter twenty-nine of the statutes of 1940, be further amended by striking there-out tariff items 219e, 264, subdivision (ii) of item 409e, 410d, 427f, subdivision (a) of item 429, 443a, 476a, 560d, 560e, 569d, subdivision (iii) of item 624a, 634(ii), 655a, 761, 824, 825, the several enumerations of goods respectively and the several rates of duties of customs, if any, set opposite each of the said items, and by inserting the following items, enumerations and rates of duty in said schedule A:

Tariff Item	—	British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates		
					B. P. Tariff	Intermediate Tariff	General Tariff
199g	Duplex backing papers or wrappers including those printed and/or skived for use in the packaging of photographic roll films; interleaving and wrapping paper, black, for packaging flat photographic films and photographic papers; when imported by manufacturers of photographic films and photographic papers for use in their own factories in the packaging of such films and papers..........	5 p.c.	$12\frac{1}{2}$ p.c.	35 p.c.	20 p.c.	$32\frac{1}{2}$ p.c.	35 p.c.
211b	Kyanite, crude or calcined, but not further processed than ground..........	Free	5 p.c.	25 p.c.	15 p.c.	25 p.c.	25 p.c.
219e	Chloropicrin, ethylene oxide, methyl formate, cyanides, carbon bisulphide, or mixtures containing any of these, for use in combating destructive insects and pests..........	Free	Free	Free	Free Free	Free 15 p.c.	Free 15 p.c.
232g	Inedible gelatine, when imported by manufacturers of photographic films, photographic plates and/or photographic paper, for use exclusively in the manufacture of such films, plates and/or paper in their own factories, under such regulations as the Minister may prescribe.......... and, per pound	5 p.c. 2 cts.	$12\frac{1}{2}$ p.c. 5 cts.	25 p.c. 5 cts.	$17\frac{1}{2}$ p.c. 2 cts.	25 p.c. 5 cts.	25 p.c. 5 cts.
264	Essential oils, natural and synthetic, n.o.p.; essential oils, natural and synthetic, containing other non-alcoholic material, n.o.p., for use in the manufacture of products or preparations for medicinal, flavouring, toilet, or other purposes, under such regulations as the Minister may prescribe..........	Free	$7\frac{1}{2}$ p.c.	$7\frac{1}{2}$ p.c.	Free 15 p.c.	$7\frac{1}{2}$ p.c. 25 p.c.	$7\frac{1}{2}$ p.c. 25 p.c.
355a	Rods containing 90 per cent or more of nickel, when imported by manufacturers of nickel electrode wire for spark plugs, for use exclusively in the manufacture of such wire for spark plugs, in their own factories..........	Free	5 p.c.	10 p.c.	15 p.c.	25 p.c.	25 p.c.

Tariff Item	—	British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates: B. P. Tariff	Present Rates: Intermediate Tariff	Present Rates: General Tariff
409e	(ii) Fruit and vegetable grading, grating, washing and wiping machines and combination bagging and weighing machines, and complete parts thereof; machines for topping vegetables, and machines for bunching and/or tying cut flowers, vegetables and nursery stock, and complete parts thereof; machines and complete parts thereof for making or lidding boxes for fruit or vegetables; egg-graders and egg-cleaners, and complete parts thereof, not including aluminum parts..................................	Free	5 p.c.	10 p.c.	Free Free	5 p.c. $27\frac{1}{2}$ p.c.	10 p.c. 35 p.c.
410d	Well-drilling machinery and apparatus, and complete parts thereof, for use exclusively in drilling for water, natural gas or oil, or in prospecting for minerals, not to include motive power; machinery and apparatus of a class or kind not made in Canada for maintenance and testing purposes in connection with gas or oil wells; well-packers and complete parts thereof, for oil or gas wells; seamless iron or steel tubing of a class or kind not made in Canada, for use in casing water, natural gas or oil wells............	Free	Free	Free	Free 10 p.c.	Free $27\frac{1}{2}$ p.c.	Free 35 p.c.
427f	Machines for the manufacture of veneers and plywoods, viz.:—veneer clippers, veneer clipper knife jointers, veneer glue spreaders, veneer jointers, veneer lathes and veneer taping machines; complete parts of all the foregoing..........................	Free	10 p.c.	35 p.c.	Free 10 p.c.	10 p.c. $27\frac{1}{2}$ p.c.	35 p.c. 35 p.c.
429	Cutlery of iron or steel, plated or not: (*a*) Knife blades or blanks, and table forks, of iron or steel, in the rough, not handled, ground nor otherwise manufactured; spoon blanks, of iron or steel, not further manufactured than stamped to shape; blanks, of iron or steel, for scissors and shears, in the rough, not ground nor otherwise manufactured................................	Free	$7\frac{1}{2}$ p.c.	10 p.c.	Free 10 p.c.	$7\frac{1}{2}$ p.c. $27\frac{1}{2}$ p.c.	10 p.c. 35 p.c.
443a	Ovens, of a class or kind not made in Canada, for use in commercial bakeries; complete parts of the foregoing...	Free	10 p.c.	30 p.	Free 15 p.c.	10 p.c. 25 p.c.	30 p.c. 30 p.c.

443b	Oven thermostats and automatic oven lighters, for use in the manufacture of apparatus designed for cooking with gas..................................	Free	10 p.c.	30 p.c.	15 p.c.	25 p.c.	30 p.c.
476a	Glassware and other scientific apparatus for laboratory work in public hospitals; chairs and tables for surgical operating purposes, and complete parts thereof: infant incubators and complete parts thereof; infant identification bead sets including cases, and integral parts thereof; electro cardiographs and complete parts thereof, and sensitized film and paper for use therein; apparatus for sterilizing purposes, including bedpan washers and sterilizers but not including washing nor laundry machines; all for the use of any public hospital, under regulations prescribed by the Minister..................	Free	Free	Free	Free 10 p.c. 10 p.c. 27½ p.c. and, per ounce 7 cts.	Free 25 p.c. 35 p.c. 30 p.c. and, per ounce 7 cts.	Free 30 p.c. 35 p.c. 45 p.c. and, per ounce 7 cts.
560c	Woven fabrics with cut pile, whether or not coated or impregnated, wholly or in part of silk or artificial silk, but not containing wool, n.o.p................	17½ p.c.	32½ p.c.	35 p.c.	17½ p.c. 27½ p.c. 30 p.c.	32½ p.c. 30 p.c. 40 p.c.	35 p.c. 45 p.c. 50 p.c.
597c	Strings for musical instruments......................	10 p.c.	20 p.c.	30 p.c.	10 p.c. 20 p.c. 15 p.c. 20 p.c. 17½ p.c. 10 p.c. 15 p.c.	32½ p.c. 27½ p.c. 30 p.c. 37½ p.c. 33⅓ p.c. 27½ p.c. 25 p.c.	40 p.c. 30 p.c. 30 p.c. 45 p.c. 45 p.c. 35 p.c. 25 p.c.
624a	(iii) Juvenile construction sets of metal or rubber, consisting of various stampings, punched or moulded and connections therefor; parts of the foregoing....	Free	30 p.c.	40 p.c.	Free 10 p.c.	30 p.c. 30 p.c.	40 p.c. 40 p.c.
655a	Lead pencils and crayons, n.o.p.....................	10 p.c.	35 p.c.	35 p.c.	10 p.c.	35 p.c.	35 p.c.
655b	Crayons of chalk or chalk-like material, coloured or not..	10 p.c.	20 p.c.	35 p.c.	10 p.c.	35 p.c.	35 p.c.

Tariff Item	—	British Preferential Tariff	Intermediate Tariff	General Tariff	Present Rates B. P. Tariff	Present Rates Intermediate Tariff	Present Rates General Tariff
761	Collodion and emulsions thereof, iodizers for collodion, and stripping solutions, when imported for use exclusively by photo-engravers, lithographers, rotogravure printers, or engravers of copper rollers, in their manufacturing operations..................	15 p.c.	17½ p.c.	17½ p.c.	15 p.c.	17½ p.c.	17½ p.c.
824	Perilla oil and cashew nut shell oil, for use in Canadian manufactures....................................	Free	Free	Free	Free 15 p.c.	Free 25 p.c.	Free 25 p.c.
825	Woven cord tire fabric, wholly or in chief part by weight of artificial silk or similar synthetic fibres, not to contain silk nor wool, coated with a rubber composition, when imported by manufacturers of rubber, to be incorporated by them in pneumatic tires, in their own factories........................	Free	17½ p.c.	25 p.c.	Free	15 p.c.	25 p.c.
	and, per pound	....	3½ cts.	4 cts.			
826	Wire drawing dies in the rough, not being complete parts of machinery, and materials or articles entering into their manufacture....................	Free	10 p.c.	35 p.c.	15 p.c.	25 p.c.	25 p.c.

2. Resolved, that any enactment founded upon the foregoing resolution shall be deemed to have come into force on the thirtieth day of April, one thousand nine hundred and forty-one, and to have applied to all goods mentioned in the foregoing resolution imported or taken out of warehouse for consumption on and after that date, and to have applied to goods previously imported for which no entry for consumption was made before that date.

APPENDIX

TO

THE BUDGET, 1941-42

Budget Papers presented by the
Honourable J. L. Ilsley, M.P., for the
information of Parliament on the occasion of the
Budget of 1941-42

A. Review of Government Accounts, 1940-41.

B. Tables on Economic Conditions, 1940-41.

DOMINION OF CANADA

A. GOVERNMENT ACCOUNTS, 1940-41

Comparative Summary Statement of Revenues and Expenditures

1. As the final figures for the fiscal year 1940-41 are not as yet available, all statements dealing with revenues, expenditures, investments and balance sheet items are estimated. It is expected that when the books of the year are finally closed, any variations from the figures shown herein will be of slight importance.

2. The following tables show, by main categories and in detail, revenues, expenditures and the increase in net debt for the fiscal year 1940-41, together with comparable figures for the four preceding fiscal years:

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS
(000 omitted)

—	1936-37	1937-38	1938-39	1939-40	Estimated 1940-41
	$	$	$	$	$
Tax Revenues—					
Customs import duties	83,771	93,456	78,751	104,301	130,800
Excise duties—					
Spirits, malt, etc.	17,681	19,626	18,530	21,267	34,650
Cigars, cigarettes and tobacco	28,707	32,837	33,225	40,557	55,080
Licences	39	38	34	35	120
	46,427	52,501	51,789	61,859	89,850
Less refunds	470	464	475	827	1,100
	45,957	52,037	51,314	61,032	88,750
Excise taxes—					
Sales	116,139	141,864	125,927	141,121	185,550
Manufacturers—					
Automobiles, rubber tires and tubes	1,464	1,453	1,343	1,568	10,000
Cigars, cigarette papers and tubes	1,345	1,428	1,575	2,009	3,500
Matches and lighters	1,687	1,769	1,819	2,135	2,250
Sugar	10,583	10,833	11,004	12,302	11,700
Toilet preparations and soap	1,184	1,224	1,249	1,371	1,500
Electric and gas appliances	—	—	—	—	1,850
Phonographs, radios and tubes	—	—	—	—	1,500
Sundry	436	477	465	732	1,500
Special excise (importations)	15,415	18,622	15,591	1,979	1,000
Stamps, transportation, etc.	7,527	6,958	6,525	6,486	6,500
War exchange	—	—	—	—	62,000
	155,780	184,628	165,498	169,703	288,850
Less refunds	3,307	3,809	3,787	3,675	4,800
	152,473	180,819	161,711	166,028	284,050
Income tax—					
Individuals	35,442	40,445	46,937	45,407	75,860
Corporations	58,013	69,769	85,186	77,920	131,570
Dividends, interest, etc.	8,910	10,152	9,903	11,122	13,040
	102,365	120,366	142,026	134,449	220,470
National defence tax	—	—	—	—	27,670
Excess profits tax	—	—	—	—	24,000
Banks, Insurance Companies, etc.—					
Chartered banks	1,210	1,107	1,014	949	930
Insurance companies	775	867	891	926	970
Miscellaneous	483	509	587	586	650
Total Revenue from taxes	387,034	449,161	436,294	468,271	778,290
Non-tax Revenues—					
Post Office	34,275	35,546	35,288	36,728	39,700
Return on investments	12,497	14,463	14,407	14,617	16,700
Bullion and coinage	1,414	1,715	2,052	3,756	6,300
Service charges, rentals and sundry fees	8,017	7,398	7,305	8,249	9,000
Proceeds from sales	856	910	818	1,023	1,250
Premium, discount and exchange	—	27	477	7,939	6,800
Refunds of expenditure	576	643	740	685	750
Miscellaneous	360	435	636	349	400
Total non-tax revenue	57,995	61,137	61,723	73,346	80,900
Total ordinary revenues	445,029	510,298	498,017	541,617	859,190
Special Receipts and Credits—					
Sundry receipts and credits	(1) 8,464	3,010	1,256	164	(2) 8,450

(1) Includes $8,000,000 from Canadian Wheat Board taken into the accounts as an offset, in part, to the disbursements in 1935–36 *re* losses on 1930 wheat pool and stabilization operations.

(2) Includes $5,504,000 representing the capital gain on redemption of an estimated £22,500,000 of G.T.R. 4% perpetual debenture stock and taken into the accounts as an offset to a corresponding increase in the Canadian National Railways Securities Trust Stock.

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS—Concluded
(000 omitted)

—	1936-37	1937-38	1938-39	1939-40	Estimated 1940-41
	$	$	$	$	$
Other credits—					
Refunds on capital account	616	1,543	40	21	76
Credits to non-active accounts	45	819	2,858	20,292	3,855
Net credit resulting from various adjustments in Railway accounts authorized by Canadian National Railways Capital Revision Act, 1937	—	1,023	—	—	—
Total Special Receipts and Credits	9,125	6,395	4,154	20,477	12,381
Grand Total Revenue	454,154	516,693	502,171	562,094	871,571

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS
(000 omitted)

—	1936-37	1937-38	1938-39	1939-40	Estimated 1940-41
	$	$	$	$	$
ORDINARY EXPENDITURE					
Agriculture	8,741	9,017	9,527	11,817	8,886
Auditor General's Office	423	463	473	459	454
Civil Service Commission	305	358	379	398	398
External Affairs, including Office of Prime Minister	1,341	1,450	1,057	1,220	1,028
Finance—					
Interest on Public Debt	137,410	132,118	127,996	129,315	139,239
Cost of Loan Flotations and Annual Amortization of Bond Discounts and Commissions	3,839	4,555	4,914	4,992	6,376
Premium, Discount and Exchange (net)	400	—	—	—	—
Subsidies to Provinces	13,735	13,735	13,752	13,769	13,769
Special Grants to Provinces	3,225	7,475	7,475	5,475	5,475
Other Grants and Contributions	540	560	643	660	633
Civil Pensions and Superannuation	787	712	638	567	536
Government contribution to Superannuation Fund	2,019	2,065	2,220	2,271	2,316
Old Age Pensions, including pensions to blind persons commencing in 1937-38	21,149	28,653	29,044	29,977	29,924
General Expenditure	3,498	3,573	3,689	3,966	3,233
Fisheries	1,691	1,850	2,036	2,320	1,711
Governor General and Lieutenant Governors	224	225	226	227	219
Insurance	172	187	194	195	176
Justice	2,773	2,790	2,748	2,725	2,726
Penitentiaries	2,372	2,577	2,675	2,941	2,714
Labour	720	706	788	788	835
Technical Education	76	49	27	31	30
Unemployment Insurance Act, 1940	—	—	—	—	125
Government Annuities— Payments to maintain reserve	541	8,941	—	379	500
Legislation—					
House of Commons	1,760	1,516	1,800	1,286	2,510
Library of Parliament	75	79	72	76	71
Senate	587	536	600	432	869
General	73	57	75	68	55
Dominion Franchise Office	53	76	50	—	—
Chief Electoral Officer, including elections	72	45	114	458	2,475
Mines and Resources					
Administration	—	(1) 1,491	(1) 184	(1) 186	(1) 172
Immigration and Colonization	1,313	1,163	1,335	1,338	1,303

(1) Prior to 1937-38 general administration expenses were not segregated from other expenditures of the respective services of the departments which were amalgamated to form the Department of Mines and Resources. The figures from 1938-39 represent only Departmental Administration, other administration costs being included as in other departments, under the respective services.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—Continued
(000 omitted)

—	1936-37	1937-38	1938-39	1939-40	Estimated 1940-41
ORDINARY EXPENDITURE	$	$	$	$	$
Mines and Resources—*Concluded*					
Indian Affairs	4,904	4,897	5,305	5,675	5,313
Interior	2,887	—	—	—	—
Lands, Parks and Forests	—	1,910	2,249	2,116	1,955
Surveys and Engineering	—	933	1,325	1,301	1,200
Mines and Geological Survey	1,135	658	1,340	1,324	1,197
Movement of Coal and Subsidies under Domestic Fuel Act	2,277	2,521	1,921	4,532	4,352
Munitions and Supply	—	—	—	—	9
National Defence—					
Administration	—	—	(2) 409	(2) 178	(2) 32
Militia Service	11,346	17,221	15,772	5,997	152
Naval Service	4,763	4,372	6,590	1,869	—
Air Service	5,822	10,018	11,216	4,852	—
Sundry Services	992	1,149	447	295	39
National Revenue (including Income Tax)	11,205	11,870	11,899	12,064	12,138
Pensions and National Health—					
Administration	—	—	(2) 118	(2) 132	(2) 131
Treatment and after-care of returned soldiers	11,579	12,109	13,453	14,771	13,661
Pensions, War and Military	42,801	42,240	42,181	42,219	41,568
Health Division	873	957	1,012	1,113	1,185
Post Office	31,906	33,762	35,456	36,726	38,600
Privy Council	45	48	49	59	54
Public Archives	160	170	159	150	126
Public Printing and Stationery	169	161	191	199	281
Public Works	14,519	12,382	15,484	13,065	11,600
Royal Canadian Mounted Police	5,901	6,308	6,145	5,626	5,476
Secretary of State	655	693	730	836	784
Soldier Settlement	806	801	758	624	590
Trade and Commerce	5,523	4,070	4,763	4,999	4,554
Canada Grain Act	1,739	1,675	1,847	1,933	1,925
Mail Subsidies and Steamship Subventions	2,120	2,029	1,993	1,907	1,100
Transport—					
Administration	—	(2) 417	(2) 371	(2) 358	(2) 368
Air Service	—	(3) 2,935	(3) 3,457	(3) 3,862	(3) 3,815
Marine Service	5,614	4,290	4,271	4,215	3,934
Canadian Radio Commission	878	—	—	—	—
Canadian Travel Bureau	250	250	249	312	496
Railways and Canals	3,769	3,661	4,371	3,763	3,582
Maritime Freight Rates Act	2,506	3,183	2,583	2,660	3,951
Railway Grade Crossing Fund	54	180	187	255	135
Total ordinary expenditure	387,112	414,892	413,032	398,323	393,061
CAPITAL EXPENDITURE					
Canals	52	—	—	—	—
Railways	203	71	26	23	7
Public Works	3,237	4,359	5,398	7,007	3,398
Total Capital Expenditure	3,492	4,430	5,424	7,030	3,405
WAR EXPENDITURE					
War (see section 16)	—	—	—	118,291	791,862
SPECIAL EXPENDITURE					
Administration—Relief Acts	194	378	260	287	252
Grants-in-aid to Provinces	28,930	19,493	17,037	—	—
Material Aid to Provinces, including municipal improvements projects	—	—	—	19,534	14,757

(2) Prior to 1937-38 in the case of the Department of Transport and prior to 1938-39 in the case of National Defence and Pensions and National Health general administration expenses were not segregated from other expenditure of the respective services of the departments.

(3) Prior to 1937-38 expenditures on civil aviation, now the Air Service Branch of the Department of Transport, were included under expenditures for the Air Service Branch of the Department of National Defence.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—Continued
(000 omitted)

—	1936-37	1937-38	1938-39	1939-40	Estimated 1940-41
SPECIAL EXPENDITURE—*Concluded*	$	$	$	$	$
Dominion share of joint Dominion-Provincial projects	12,692	8,841	6,259	7,147	2,321
Dominion Projects	23,554	13,913	12,981	24,919	9,583
Transportation facilities into mining areas	1,221	1,324	1,213	1,121	50
Railway Maintenance Relief Work	2,662	—	—	—	—
	69,253	43,949	37,750	53,008	23,963
Western Drought Area Relief—					
Direct Relief	5,144	11,925	8,869	1,605	—
Feed and fodder and freight thereon	3,517	11,352			
Freight charges on movement of cattle	90	—	—	—	—
Expenses of marketing cattle	—	337	—	—	—
Purchase and distribution of foodstuffs	—	972	277	—	—
Prairie Farm Assistance Act, 1939—					
Administration	—	—	—	—	350
Advances to Prairie Farm Emergency Fund	—	—	—	7,500	4,800
	8,751	24,586	9,146	9,105	5,150
Provision for reserve against estimated losses on 1938 wheat marketing guarantees	—	—	25,000	27,000	—
Provision for reserve to meet deficits resulting from the operations of the Canadian Wheat Board calculated as at July 31, 1940, not previously provided for	—	—	—	—	10,500
Total special expenditure	78,004	68,535	71,896	89,113	42,613
GOVERNMENT OWNED ENTERPRISES					
Losses charged to Consolidated Fund—					
Canadian National Railway System, ex-eastern lines	37,449	37,882	48,194	34,850	14,451
Eastern lines	5,854	4,464	6,120	5,245	2,514
Prince Edward Island Car Ferry and Terminals	—	—	(1) 388	427	461
National Harbours Board	250	289	138	94	40
Trans-Canada Air Lines	—	111	818	412	—
Central Mortgage Bank	—	—	—	16	—
Total charged to consolidated Fund	43,553	42,746	55,658	41,044	17,466
Loans and advances non-active—					
Canadian National Steamships	Cr. 1,754	104	6	8	—
National Harbours Board	2,419	1,983	3,279	1,027	716
Total non-active advances	665	2,087	3,285	1,035	716
Total government-owned enterprises	44,218	44,833	58,943	42,079	18,182
OTHER CHARGES					
Write-down of assets chargeable to Consolidated Fund—					
Drought Area Relief Loans, 1934-35—Province of Saskatchewan	—	—	—	1,374	—
Reduction in soldier and general land settlement loans	628	750	1,023	1,643	983
Yearly established losses in seed grain and relief accounts—Department of Mines and Resources	44	14	18	10	46

(1) Included with Eastern lines in previous years.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—Concluded

(000 omitted)

—	1936-37	1937-38	1938-39	1939-40	Estimated 1940-41
	$	$	$	$	$
OTHER CHARGES—*Concluded*					
Write-down of assets chargeable to Consolidated Fund—*Concluded*					
Canadian National Railways Securities Trust Stock—Reduction due to line abandonments during calendar years 1938, 1939 and 1940	—	(2) —	2,713	2,600	2,334
Canadian National Railways Securities Trust Stock—Capital loss (exclusive of loss applicable to expired service life) on sale of S.S. *Prince David* and *Prince Robert*	—	—	—	—	1,475
Cancellation of Canadian Farm Loan Board—Capital Stock	20	10	14	11	12
Province of Manitoba Treasury Bills	—	(4) 805	—	—	—
Province of Saskatchewan Treasury Bills	—	—	—	(4) 17,682	—
Non-active Accounts—					
General Land Settlement Loans	—	139	—	—	—
Active assets transferred to non-active	(3) 18,487	—	—	—	—
Fulfilment of guarantees—					
Saskatchewan Seed Grain Loans 1936 and 1937	—	—	—	2,638	7,150
Canadian National Railways Securities Trust Stock—Capital gain on redemption of £22,500,000 G.T.R. 4% Perpetual Debenture Stock	—	—	—	—	5,504
Total other charges	19,179	1,718	3,768	25,958	17,504
Grand total expenditures	532,005	534,408	553,063	680,794	1,266,627

(2) An amount of $711,000 representing line abandonments during the calendar year 1937 was included in the adjustments resulting from the Canadian National Railways Capital Revision Act, 1937.

(3) Dominion contribution to Voluntary Debt Adjustment Program effected in Provinces of Manitoba and Saskatchewan respecting Drought Area Relief that was financed by the Dominion up to January 1, 1935—Manitoba $805,000, Saskatchewan $17,682,000.

(4) These amounts are offset by a contra account on the revenue side.

SUMMARY OF REVENUES AND EXPENDITURES

(000 omitted)

—	1936-37	1937-38	1938-39	1939-40	Estimated 1940-41
	$	$	$	$	$
Ordinary expenditures	387,112	414,892	413,032	398,323	393,061
Ordinary revenues	445,029	510,298	498,017	541,617	859,190
Surplus on ordinary account	57,917	95,406	84,985	143,294	466,129
War and Special expenditures	78,004	68,535	71,896	207,404	834,475
Less special receipts	8,464	3,010	1,256	164	8,450
Balance	69,540	65,525	70,640	207,240	826,025
Add—Capital expenditures	3,492	4,430	5,424	7,030	3,405
" Government owned Enterprises	44,218	44,833	58,943	42,079	18,182
" Other charges	19,179	1,718	3,768	25,958	17,504
	136,429	116,506	138,775	282,307	865,116
Less other credits	661	3,385	2,898	20,313	3,931
	135,768	113,121	135,877	261,994	861,185
Deduct surplus as above	57,917	95,406	84,985	143,294	466,129
Over-all deficit or increase of direct net debt	77,851	17,715	50,892	118,700	395,056

REVENUES, 1940-41

3. When the books are finally closed for the fiscal year, 1940-41, it is estimated that total revenues will reach an all-time record of $871,571,000, an increase over last year of $309,477,000, or approximately 55 per cent. This increase represents the additional revenues obtained during the year by reason of:

(*a*) Imposition of new taxes.

(*b*) Changes in rates and exemptions effected since the outbreak of war.

(*c*) Expanding production and national income due to war and the consequent higher yield from our former tax structure.

(*d*) Prepayment of income taxes during January, February and March, 1941, not normally payable until April 30, 1941.

4. For purposes of ready reference, the 5-Year table of revenue is shown on page 4 but the form is different from that used in previous years. This table is divided to show taxation revenues under appropriate headings with sub-headings of Excise Duties, Excise Taxes and Income Taxes. The non-tax revenue section is broken down under eight main headings, and the whole table is on a comparative basis, one year with another.

5. Total revenues from taxation for the fiscal year just ended are estimated at $778,290,000 compared with $468,271,000 collected during the previous year. Revenues from taxation comprise 89 per cent of the total income. An examination of the 5-Year table discloses that the greatest gain was made in income tax (including National Defence and Excess Profits Taxes) where an increase of $137,691,000 is recorded. It is not possible to estimate with any degree of accuracy the total amount of prepayments of income tax which normally would not have been paid until April 30, 1941, although it is known that about 110,000 taxpayers took advantage of the interest-free instalment payments. The estimated increase of $137,691,000 is derived from: increases in payments due to improvement in the national income; taxation changes effected by the emergency budget of September, 1939, and prepayments of the interest-free instalments, $86,021,000; National Defence Tax effective for 6 months only in 1939-40, $27,670,000, and Excess Profits Tax, $24,000,000.

The excess profits tax includes only the actual amount received to March 31, 1941, and is substantially less than the estimated revenue for a complete year.

6. The total revenue from sales tax, less refunds, is estimated at $180,750,000 compared with $137,446,000 the previous year, an increase of $43,304,000. As provided for in the budget of September, 1939, there was removed from the schedule of exemptions, electricity and gas used for domestic purposes, salted or smoked meats and canned fish. As this change was effective for a part of the previous year only, a portion of the above increase is due to such exemptions being applied for the full year 1940-41. With the exception of this change in taxation, the increase of $43,304,000 is considered as reflecting improvement in conditions generally, due principally to expanding activity brought about by the war.

7. Other excise taxes as set out in the 5-year table, but excluding war exchange tax are expected to produce $41,300,000, an increase over the previous

year of $12,718,000. This increase is accounted for mainly by higher yields of the excise taxes on automobiles, rubber tires and tubes and on smokers' supplies and by the new excise taxes on electric and gas appliances, phonographs, radios and tubes, etc.

8. A total revenue of $62,000,000 is expected to be realized from the war exchange tax of 10 per cent on the value for duty purposes of all imports from non-Empire countries imposed in the June, 1940, budget primarily to conserve exchange.

9. Revenues from Customs import duties for the year just closed are estimated at $130,800,000 compared with $104,301,000 received during 1939-40. This increase of $26,499,000 is due largely to increased imports arising out of the war.

10. Receipts from excise duties, mainly on liquor and tobacco, are expected to total $88,750,000, an increase of $27,718,000 over the previous fiscal year. This increase is accounted for mainly by increased duties on liquors and tobacco following the budgets of September, 1939, and June, 1940. The gross duty on liquor is estimated at $34,650,000, and that on tobacco at $55,080,000.

11. The total revenue classified as non-tax revenues is estimated at $80,900,000 compared with $73,346,000 in the previous year. The largest non-tax item is the receipts of the Post Office which it is expected will total $39,700,000, an increase of nearly $3,000,000 over the preceding fiscal year. The receipts from the Post Office will it is expected exceed the cost of operations by $1,100,000. As mentioned in previous budget speeches, the Post Office accounts do not include the rental value and other costs of premises occupied, and equipment used, nor do they include any credit to the Post Office for services rendered to other departments for the free use of the mails.

12. Special Receipts and other credits are estimated at $12,381,000. Of this amount, $5,504,000 represents a capital gain on redemption of an estimated £22,500,000 of Grand Trunk Railway 4 per cent perpetual debenture stock, and taken into the accounts as an offset to a corresponding increase in the Canadian National Railways Securities Trust Stock. $2,334,000 of Canadian National Railways Securities Trust Stock was written off because of line abandonments during the calendar year 1940 and an additional $1,475,000 to represent the capital loss (exclusive of loss applicable to expired service life) on the sale of s.s. *Prince David* and *Prince Robert*. In addition there was a write-off of $46,000 representing the yearly established losses in the seed grain and relief accounts of the Department of Mines and Resources. All of these amounts, totalling $9,359,000, necessarily appear on the expenditure statement under the heading of "Other Charges". The balance of $3,022,000 is made up of $1,420,000 representing voluntary donations for war purposes; $1,220,000 representing refunds of previous year's war expenditures and $382,000 representing refunds of previous years' relief expenditures and sundry credits.

EXPENDITURES, 1940-41

13. The comments which follow will deal with expenditures classified by the usual main categories: Ordinary Expenditures; War and Special Expenditures, Operating Deficits of, and Non-active Advances to Government-owned Enterprises, Capital Expenditures and Other Charges. All disbursements under these categories are included as expenditures in arriving at the over-all deficit or increase in net debt.

Ordinary Expenditures

14. It is estimated that ordinary expenditures for the year will total $393,061,000, of which interest and other charges on the public debt, pensions, post office and subsidies and special grants to provinces, will aggregate

$274,951,000, or approximately 70 per cent of the total. The remaining 30 per cent represents the general administrative expenses of the other services of government charged to Ordinary Expenditure.

The above estimated total of $393,061,000 is less than actual ordinary expenditures last year by $5,262,000. The largest decrease is in the Department of National Defence, where by reason of the war certain expenditures charged to ordinary account last year are this year charged to war expenditures. This decrease amounted to $12,968,000. Other decreases are as follows: Agriculture, $2,931,000; External Affairs, $192,000; Finance, general, $733,000; Fisheries, $609,000; Indian Affairs, $362,000; Lands, Parks and Forests, $161,000; Surveys and Engineering, $101,000; Penitentiaries, $227,000; Mines and Geological Survey, $127,000; Movement of coal, $180,000; Treatment and after-care of returned soldiers, $1,110,000; Pensions, War and Military, $651,000; Public Works, $1,465,000; Royal Canadian Mounted Police, $150,000; Trade and Commerce, $445,000; Mail Subsidies and Steamship Subventions, $807,000; Marine Services, $281,000; Railways and Canals, $181,000; Railway Grade Crossing Fund, $120,000; and Sundry, $382,000. These decreases aggregate $24,183,000.

The largest increase in ordinary expenditures was in interest and other charges on the Public Debt, which amounted to $11,308,000. Other increases are as follows: Unemployment Insurance Act, $125,000; Government Annuities, $121,000; House of Commons, $1,224,000; Senate, $437,000; Chief Electoral Officer, including elections, $2,017,000; Post Office, $1,874,000; Canadian Travel Bureau, $184,000; Maritime Freight Rates Act, $1,291,000; and Sundry, $340,000. These increases aggregate $18,921,000.

Capital Expenditures

15. Total expenditures charged to capital are estimated to total $3,405,000 compared with $7,030,000 in the previous year. The main items in this category are expenditures arising out of dredging the St. Lawrence Ship Channel and the construction and improvements of Civil airways and airports.

War Expenditures

16. It is estimated that the expenditures resulting from the war which will be charged against the fiscal year ended March 31, 1941, will amount to $791,862,000. This amount represents the actual expenditures during the fiscal year; it does not include commitments entered into but not yet paid for. Such commitments include orders for materials and supplies not delivered at March 31, 1941, or for which accounts had not been rendered and approved at that date. The expenditures for the year include a substantial part but not the whole cost of maintaining Canadian troops in the United Kingdom up to March 31, 1941. The accounts covering these maintenance costs which have been rendered by the United Kingdom Government, have been paid and in addition substantial payments have been made on account. But the rendering of detailed accounts by the United Kingdom Government has been delayed due to conditions presently prevailing there, with the result that some part of the costs of maintaining our troops to March 31, 1941, will not be computed or paid until after the books are closed for the last fiscal year. Such costs will be charged against the fiscal year which began on April 1st last.

There is included in the total of $791,862,000, expenditures by the Department of Munitions and Supply for the expansion of industry amounting to $84,900,000. Some part of this should eventually be recovered, including the amount of advances made to contractors for working capital and any salvage that is received for the new plants which have been constructed with moneys

advanced by the Government. As it is impossible to estimate the amount of such eventual recoveries in any accurate way, the full amount of the expenditures has been charged against the year in which they were incurred.

In addition to the estimated expenditures of $791,862,000, amounts aggregating $24,288,000 were paid under authority of the War Appropriation Act, 1940, and have been carried forward as active assets. These include:—

Purchases of railway equipment...............	$15,738,000
Working capital—Canadian Government Merchant Marine..........................	750,000
Advances to commodity companies—Department of Munitions and Supply.................	7,800,000
	$24,288,000

In addition to the above certain payments have been made under authority of Section 3 of the War Appropriation Act, 1940, which are recoverable from the United Kingdom and other Allied Governments. The estimated amount of these recoverable advances at March 31, 1941, is made up as follows:—

United Kingdom—Internment operations........	$ 3,000,000
United Kingdom—Royal Air Force Special Schools..............................	11,000,000
United Kingdom—Aircraft and other equipment for British Commonwealth Joint Air Training Plan..............................	17,500,000
United Kingdom and Allied Governments—Militia and naval recoverables...........	6,940,000
Total (which is shown as a separate item in the balance sheet).........................	$38,440,000

In addition there will be recoverable from Australia and New Zealand, substantial amounts in connection with the British Commonwealth Joint Air Training Plan.

The total expenditures of $816,150,000, not including the recoverable advances referred to above, which have been charged against the War Appropriation Act are analysed by Departments and Services as follows:—

Agriculture...$		5,268,000
Auditor General's Office— Audit of War Expenditure..................................		60,000
Chief Electoral Officer— Duties imposed by National Registration..................		5,000
Civil Service Commission— Additional War Expenses.................................		120,000
External Affairs..		379,000
Finance...		1,686,000
Fisheries...		174,000
Justice—		
Prize Court..............................	$ 25,000	
Defence of Canada Regulations..............	19,000	
War Measures Act.......................	3,000	
		47,000

Labour		$ 1,702,000
Mines and Resources		354,000
Munitions and Supply—		
Administration	$ 2,300,000	
Expansion of Industry	84,900,000	
		$ 87,200,000
National Defence—		
Administration	1,351,000	
Dependents' Allowance Board	241,000	
Military Services	404,714,000	
Censoring	183,000	
Internment	957,000	
Radio Services, N.W.T. & Yukon	141,000	
Royal Military College	360,000	
		407,947,000
National Defence—Naval Services		85,192,000
National Defence—Air Services—		
Home War and Overseas Establishments	66,000,000	
British Commonwealth Air Training Plan	119,000,000	
		185,000,000
National Harbours Board		265,000
National Research Council		542,000
National Revenue—		
Censorship of Publications		5,000
National War Services		2,543,000
Pensions and National Health		3,520,000
Post Office		258,000
Privy Council—		
Office of the Registrar of Orders in Council		6,000
Public Works		5,539,000
Royal Canadian Mounted Police—		
Land Services, incidental to war		2,500,000
Secretary of State—		
Internment Operations	89,000	
Voluntary Service Registration Bureau	9,000	
Press Censorship	77,000	
Department Generally—War Measures Act	1,000	
Commission *re* Revocation of National Certificates	1,000	
		177,000
Trade and Commerce—		
Canada Shipping Board		22,000
Transport		1,351,000
Total War charged to Expenditure		$791,862,000

ACTIVE ASSETS—		
Loans and Investments—		
Purchase of Railway Equipment	$ 15,738,000	
Working Capital-Canadian Government Merchant Marine	750,000	
		$ 16,488,000
Munitions and Supply-Advances to Commodity Companies		7,800,000
Grand Total charged to War Appropriation Acts		$816,150,000

SPECIAL EXPENDITURES

17. Relief expenditures for 1940-41 are estimated to total $32,113,000 compared with $62,113,000 in the previous year. Payments to Provinces under the Material Aid and Municipal Improvements Projects Agreements are estimated at $14,757,000 compared with an expenditure the previous year of $19,534,000. The Dominion's share of joint Dominion-Provincial projects, including transportation facilities into mining areas, and the development of tourist highways, decreased from $8,268,000 to $2,371,000. The total cost of Public Works and Other Projects including administration for which the Dominion assumed sole responsibility, is estimated at $9,835,000 as compared with $25,206,000 during the preceding year.

Expenditure by the Dominion under the Prairie Farm Assistance Act, in the form of advances to the Prairie Farm Emergency Fund as provided for in the Act, is estimated at $4,800,000 compared with $7,500,000 for the preceding year. In addition it is estimated that administration costs will total $350,000. In the previous fiscal year these administration costs were charged to ordinary expenditures.

The following table shows a comparison of relief expenditures during each of the last two fiscal years:—

—	1939–40	1940–41 (estimated)
	$	$
Material Aid to Provinces and Dominion's contribution to Municipal Improvement Projects	19,534,000	14,757,000
Dominion's share of joint Dominion-Provincial Projects	8,268,000	2,371,000
Dominion Projects—		
Department of Agriculture	3,623,000	3,904,000
" Fisheries	230,000	450,000
" Mines and Resources	2,751,000	660,000
" National Defence	137,000	48,000
" Public Works	13,340,000	3,675,000
" Trade and Commerce	227,000	576,000
" Transport	4,298,000	264,000
Sundry Departments	600,000	258,000
Western Drought Area Relief—		
Direct and Agricultural Relief	1,605,000	—
Prairie Farm Assistance Act—		
Payments to Emergency Fund	7,500,000	4,800,000
Administration	—	350,000
	62,113,000	32,113,000

18. The following table shows the Dominion's relief expenditures of a direct nature since the passing of the first Relief Act in 1930:

(000 omitted)

—	Direct Relief including Grants-in-Aid	Joint Dominion-Provincial Works and Projects	Dominion Works and Projects	Western Drought Area Relief	Write-off of Provincial Loans	Miscellaneous Relief Expenditures	Total
	$	$	$	$	$	$	$
Period Sept. 22/30 to March 31, 1935	77,767	49,643	29,977	(1) 15,088	....	3,532	176,007
Year ended Mar. 31/36	26,570	10,408	38,132	(2) 4,000	....	306	79,416
Year ended Mar. 31/37	28,931	12,472	27,585	8,751	(3) 18,487	265	96,491
Year ended Mar. 31/38	19,530	10,165	13,847	24,586	....	407	68,535
Year ended Mar. 31/39	17,070	7,472	12,919	9,146	....	288	46,895
Year ended Mar. 31/40	19,534	8,268	24,919	(4) 9,105	(5) 1,374	287	63,487
Year ended Mar. 31/41 (estimated)	14,757	2,371	9,583	(6) 5,150	....	252	32,113
Total	204,159	100,799	156,962	75,826	19,861	5,337	562,944

(1) Includes $5,000,000 Province of Saskatchewan Treasury Bills written off and charged to expenditure.

(2) Represents Province of Saskatchewan Treasury Bills written off and charged to expenditure.

(3) Written down to non-active assets as of March 31, 1937, and written off during 1939–40.

(4) Includes Prairie Farm Assistance Act, 1939, $7,500,000.

(5) Write off of Saskatchewan Treasury Bills *re* 1934–35 Drought Area Relief.

(6) Prairie Farm Assistance Act, 1939, $5,150,000.

In the above table no account is taken of loans to Western Provinces under Relief Acts, loans to cover labour cost of special railway works programs and losses borne by the Dominion as a result of wheat marketing operations.

19. The remaining item in this classification is an amount of $10,500,000 to provide for a reserve to meet the deficits resulting from the operations of the Canadian Wheat Board calculated as at July 31, 1940, not previously provided for. As was shown in the Public Accounts for the year ended March 31, 1940, an advance of $52,000,000 was made by the Dominion to the Canadian Wheat Board to meet possible losses of the Board in respect of 1938 Wheat. This further amount of $10,500,000, or to be exact $10,499,676.97 to be set up in the Dominion's books as a Reserve represents the exact amount necessary to meet the deficit of the Board not previously provided for on the basis of calculations made as at July 31, 1940, the close of the crop year. 1939-40.

GOVERNMENT OWNED ENTERPRISES

20. The next major classification of expenditures comprises the losses of, and non-active advances to Government owned enterprises which are operated as separate corporations.

Canadian National Railways

21. The operating revenues of the Canadian National Railways for the calendar year 1940 totalled $247,527,000, an increase of $43,707,000 or 21·4 per cent over the calendar year 1939.

Operating expenses of the Railways amounted to $202,520,000, an increase of $19,554,000 or 10·7 per cent over the preceding year. Practically all of this increase was in maintenance of way and equipment, and transportation expenses, due to the greatly increased volume of traffic.

Net revenue available for interest on the Railway's debt was $33,474,000 compared with $10,635,000 in 1939. After payment of interest charges of $48,701,000 to the public, and interest charges of $1,738,000 due to the Government on temporary loans for capital purposes and refunding, there was a net cash deficit of $16,965,000 compared with $40,096,000 in the previous year, a decrease of $23,131,000.

The operating deficit of the Prince Edward Island Car Ferry and Terminals during 1940 was $461,000 as compared with $427,000 in 1939.

Canadian National Steamships

22. The operations of the Canadian National (West Indies) Steamships Limited resulted in a surplus of $666,000 after payment of interest on bonds held by the public but before depreciation and interest on advances from the Government. The comparable figure for 1939 was $154,000. The operating surplus was paid to the Government in payment of interest (Current and Arrears).

National Harbours Board

23. The operations of the facilities and harbours under the administration of the National Harbours Board in 1940 recorded a substantial gain over 1939. Operating income for the calendar year after payment of interest to the public but before depreciation and interest on Government advances, totalled $4,943,000 compared with $3,723,000 in the previous year, an increase of 33 per cent.

Financial assistance provided by the Government to the National Harbours Board and charged to Dominion expenditure in the fiscal year ended March 31, 1941, amounted to $756,000. This amount was made up as follows: $40,000 for the operating deficit of the Churchill Harbour; $425,000 for non-active advances for the deficit of the Jacques Cartier Bridge at Montreal; $48,000 for retirement of debentures of the Saint John Harbour Commission and $243,000 for capital expenditures at Halifax, Saint John, Quebec and Churchill.

The elevators at Port Colborne and Prescott operated at a profit during 1940 and the Government received $310,000 from these sources which was credited to Revenue.

Summary

24. The total amount charged to Government expenditures resulting from operating deficits and non-active advances to all government-owned enterprises totalled $18,182,000 as compared with $42,079,000 in the fiscal year ended March 31, 1940. The decrease of $23,897,000 was due almost entirely to the reduction of the deficit of the Canadian National Railways. Loans and Advances to Government-owned Enterprises which are treated in the Public Accounts as Active Assets are referred to in a later section.

OTHER CHARGES

25. Other charges, the final main category of expenditures, is estimated at $17,504,000.

The principal items included in this total are $7,150,000 representing the fulfilment of guarantees given by the Dominion with respect to bank loans to Municipalities in the Province of Saskatchewan pursuant to the Seed Grain

Loans Guarantee Act, 1937, and $5,504,000, the amount by which the Canadian National Railways Securities Trust Stock has been increased due to capital gain on redemption at $4·45 to the pound of an estimated £22,500,000 of Grand Trunk Railway 4% Perpetual Debenture Stock. This latter figure is offset by a similar amount included as a special credit to Consolidated Fund already referred to under Revenues.

Write-offs from non-active assets include $2,334,000 from the Canadian National Railways Securities Trust Stock representing line abandonments during the calendar year 1940, and $1,475,000 representing the net capital loss on the sale of the steamships *Prince David* and *Prince Robert*. In addition $46,000 is estimated as the yearly established loss in seed grain and relief accounts of the Department of Mines and Resources. The total of these three items, namely $3,855,000, is offset by a similar amount of other credits already referred to under revenues.

The annual write-off of Soldier and General Land Settlement Loans is estimated at $983,000, and the cancellation of Canadian Farm Loan Board Capital Stock at $12,000. These two items are write-offs from active assets and the net debt of the Dominion is increased accordingly.

SUMMARY OF EXPENDITURES

26. The grand total of the preceding expenditures, i.e., Ordinary, Capital, War, Special, Government Owned Enterprises, and Other Charges, is $1,266,627,000 for the fiscal year 1940–41.

27. The following table shows the percentage distribution of revenues and expenditures for a number of important items of revenue and expenditure. Receipts from various taxes and other revenue sources are shown as percentages both of total revenues and of total expenditures. Similarly, several of the main items of expenditure or groups of such items are shown as percentages both of total expenditures and of total revenues. This table should only be used for the purpose of drawing broad conclusions as to the relative burdens imposed on the treasury by the several important services or obligations of Government.

PERCENTAGE DISTRIBUTION OF REVENUES AND EXPENDITURES, 1940–41

(000 omitted)

Revenues	Amount (estimated)	Percentage of total Revenues	Percentage to total Expenditure
	$	%	%
Ordinary Revenue—			
Income Tax	272,140	31·23	21·48
Customs Import Duties	130,800	15·01	10·33
Excise Duties	88,750	10·18	7·01
Sales Tax	180,750	20·74	14·27
War Exchange Tax	62,000	7·11	4·89
Manufacturers', importation, stamp taxes, etc	41,300	4·74	3·26
Other tax revenues	2,550	0·29	0·20
Total Revenue from Taxes	778,290	89·30	61·44
Non-tax Revenues	80,900	9·28	6·39
Total Ordinary Revenue	859,190	98·58	67·83
Special Receipts and Credits	8,450	0·97	0·67
Other Receipts and Credits—			
Refunds of capital expenditures and credits on non-active accounts	3,931	0·45	0·31
Grand Total Revenues	871,571	100·00	68·81

PERCENTAGE DISTRIBUTION OF REVENUES AND EXPENDITURES 1940-41—Concluded

(000 omitted)

Expenditures	Amount (estimated)	Percentage of total Expenditure	Percentage to total Revenue
	$	%	%
Ordinary Expenditure—			
Interest on public debt	139,239	10·99	15·97
Cost of loan flotations and amortization charges	6,376	0·50	0·73
Public Debt Charges	145,615	11·49	16·70
Subsidies and special grants to Provinces	19,244	1·52	2·21
Old Age Pensions	29,924	2·36	3·43
Civil pensions and superannuation	536	0·04	0·06
Pensions and after-care of soldiers—			
Pensions, war and military	41,568	3·28	4·77
Treatment and after-care of returned soldiers	13,661	1·08	1·57
Total	55,229	4·36	6·34
Agriculture	8,886	0·70	1·02
Fisheries	1,711	0·14	0·20
Legislation	5,980	0·47	0·69
Mines and Resources	15,492	1·22	1·78
National Defence	223	0·02	0·03
Post Office	38,600	3·05	4·43
Public Works	11,600	0·92	1·33
Transport	16,281	1·28	1·87
All other	43,740	3·45	5·02
Total Ordinary Expenditure	393,061	31·02	45·11
Capital Expenditure—			
Railways	7	—	—
Public Works	3,398	0·27	0·39
Total Capital Expenditure	3,405	0·27	0·39
War expenditure	791,862	62·52	90·85
Special Expenditure—			
Provision for reserve for losses on wheat	10,500	0·83	1·20
Material aid to Provinces, including improvements projects	14,757	1·17	1·69
Dominion projects	9,835	0·78	1·13
Joint Dominion-Provincial Projects	2,371	0·19	0·27
Prairie Farm Assistance Act, 1939	5,150	0·41	0·59
Total Special Expenditure	42,613	3·38	4·88
Government Owned Enterprises—			
Losses charged to Consolidated Fund—			
Canadian National Railways	17,426	1·38	2·00
National Harbours Board	40	—	—
Loans and Advances Non-active—			
National Harbours Board	716	0·06	0·08
Total Government Owned Enterprises	18,182	1·44	2·08
Other Charges—			
Write-down of assets	4,850	0·38	0·56
Fulfilment of Guarantees—The Seed Grain Loans Guarantee Act, 1937	7,150	0·56	0·82
Canadian National Railways Securities Trust Stock	5,504	0·43	0·63
Total Other Charges	17,504	1·37	2·01
Grand Total Expenditures	1,266,627	100·00	145·32

OVER-ALL DEFICIT

28. Total revenues for 1940-41 amounted to $871,571,000, and total expenditures to $1,266,627,000, resulting in an over-all deficit of $395,056,000. In the preceding fiscal year, the comparable deficit was $118,700,000.

LOANS AND INVESTMENTS

Active Assets

29. In addition to the expenditures for the year, as already outlined, the Dominion has made disbursements for the acquisition of investments which are considered as active assets in the Public Accounts. These active assets are deducted from the total direct debt in arriving at the figure of net debt. During the fiscal year 1940-41, the net increase in active loans and investments was $387,231,000 as compared with $46,017,000 in 1939-40. Of this increase $325,000,000 represents a loan to the Foreign Exchange Control Board.

Loans to Provinces

30. Under authority of The Unemployment and Agricultural Assistance Act, 1940, loans have been advanced during the present fiscal year totalling $1,971,890.96. Loans of $1,700,000 were made to Saskatchewan to enable the Province to meet in part its share of relief cost for 1940-41. A loan of $271,890.96 was made to British Columbia to cover in part the Province's share of relief costs for its fiscal year 1939-40.

31. Pursuant to Order in Council, P.C. 4891 of September 17, 1940, passed under the authority of the War Measures Act, a loan of $57,600 was made to the Province of Saskatchewan to enable the Saskatchewan Power Commission to extend its system to a Bombing and Gunnery School at Dafoe, Saskatchewan. This loan bears interest at the rate of $3\frac{1}{2}$ per cent per annum, payable half-yearly, and the principal amount of the loan is to be repaid by thirty equal semi-annual instalments beginning May 15, 1941.

32. During the year repayments of loans advanced under Relief Acts were made to the amount of $457,684.03 as follows:—

Manitoba	$ 355,924 36
Saskatchewan	62,993 77
Alberta	7,500 00
British Columbia	31,265 90

33. The following tables show the net loans made to each Province under the several relief acts during each fiscal year, and a classification of such loans on the basis of the general purposes for which the loans were given:—

NET LOANS TO PROVINCES UNDER RELIEF ACTS BY FISCAL YEARS

—	Manitoba	Saskatchewan	Alberta	British Columbia	Total
	$	$	$	$	$
1931–32	2,788,812	10,934,341	4,097,740	4,813,124	22,634,017
1932–33	5,171,904	7,578,556	1,902,041	912,636	15,565,137
1933–34	2,273,283	5,469,240	4,050,743	1,321,761	13,115,027
1934–35	2,874,631	10,141,014	1,926,476	7,966,714	22,908,835
1935–36	2,396,226	14,245,478	13,104,000	12,558,445	42,304,149
1936–37	4,626,000	6,058,879	805,198	3,972,400	15,462,477
1937–38	2,959,188	11,604,787	193,000	1,541,636	16,298,611
1938–39	1,405,499	13,708,847	—	−129,506	14,984,840
1939–40	1,882,493	9,190,681	−53,698	1,546,552	12,566,028
1940–41	−355,924	1,637,007	−7,500	240,625	1,514,208
	26,022,112	90,568,830	26,018,000	34,744,387	177,353,329
Less Write-off as provided by votes 392 and 393 of further supplementary estimates, 1936–37	804,897	17,682,158	—	—	18,487,055
Less Write-off Saskatchewan Treasury Bills *re* 1934–35 Drought Area relief assumed by Dominion. (Principal $1,250,000; Accrued interest previous years $123,979.81)	—	1,373,980	—	—	1,373,980
	25,217,215	71,512,692	26,018,000	34,744,387	157,492,294

NET LOANS TO PROVINCES UNDER RELIEF ACTS CLASSIFIED AS TO PURPOSE

—	Loans Specifically to meet Maturing Obligations and Interest	Loans Specifically for Agricultural Relief, Including Purchase of Seed Grain	Loans for Provincial Purposes Generally Including Direct Relief and Public Works	Total
	$	$	$	$
Manitoba	1,139,455	234,819	24,647,838	26,022,112
Saskatchewan	3,934,341	15,448,871	71,185,618	90,568,830
Alberta	8,577,000	3,141,550	14,299,450	26,018,000
British Columbia	9,818,845	—	24,925,542	34,744,387
	23,469,641	18,825,240	135,058,448	177,353,329
Less write-offs as shown in the preceding table; Manitoba $804,897; Saskatchewan $19,056,138				19,861,035
				157,492,294

Canadian National Railways

34. In addition to paying the cash deficit of the Canadian National Railways for the calendar year 1940, the Dominion made advances to the Railway in the amount of $105,574,000, classified as follows:—

Under Canadian National Railways Financing & Guarantee Act, 1940—	
Capital expenditures and retirement of miscellaneous obligations.. ..	7,573,000
Purchase of Grand Trunk Railway Company of Canada 4% Perpetual Consolidated Debenture Stock..	94,151,000
Temporary loan on account of interim deficit to March 31, 1941	3,850,000
	$105,574,000

As referred to in last year's budget the Dominion purchased in the current year under the authority of the War Appropriation Act and the War Measures Act $8,691,000 of railway equipment which was leased to the Canadian National Railways under the terms of a hire-purchase agreement. The total amount of equipment purchased in the fiscal years 1939-40 and 1940-41 totalled $14,880,000.

The Railway Company paid the third instalment of $517,000 under the terms of a hire-purchase agreement relating to certain railway equipment purchased by the Government in 1935-36 and 1936-37 at a cost of $6,723,000 and leased to the Railway.

Other Loans and Investments

35. During the fiscal year the Government purchased an additional $38,000 of the capital stock of the Canadian Farm Loan Board and a further $800,000 of the Board's 3½ per cent bonds. Capital stock in the amount of $12,000 will, it is estimated be cancelled and written off. As at the close of the fiscal year the total of the Government's investment in the Canadian Farm Loan Board is estimated at $37,521,000.

36. The Canadian Broadcasting Corporation repaid $364,000 on account of loans made in the fiscal years 1937-38 and 1939-40.

37. In the fiscal year ending March 31, 1941, the Provinces of Manitoba, British Columbia, Nova Scotia and Prince Edward Island reduced by $1,633,000 loans granted by the Dominion in the post-war period for house construction. Loans for Soldier and General Land Settlement were reduced by payments of $1,332,000, and, in addition $983,000 will be written off and charged to Consolidated Fund.

38. Investments in Sinking Funds amounted to $2,118,000. Stocks of other loans, held in the Sinking Fund of the 4 per cent 1940/60 loan amounting to $12,943,000 were transferred to a Bond Holding account to be repurchased later for the Sinking Funds of other Sterling issues. In addition $11,988,000 4 per cent Stock held in the 1940-60 Sinking Fund together with $169,000 of cash was used for the redemption of the 1940-60 loan called October 1, 1940. $37,633,000 of the 3½ per cent 1930-50 Stock together with $1,348,000 of cash held in the 1930-50 Sinking Fund was used for the redemption of the 3½ per cent 1930-50 loan called April 17, 1940. These transactions resulted in a net decrease in the Sinking Funds account for the year of $61,963,000.

39. In the period April 1, 1940, to March 31, 1941, 5,302 loans were approved under the National Housing Act in the amount of $16,067,000, bringing the total to March 31, 1941, to $68,620,000. During the fiscal year it is estimated that the Dominion's share of loans actually paid out, less repayments by borrowers will total $3,827,000. The net amount of loans under the authority of the National Housing Act and the Dominion Housing Act, outstanding on the books of the Dominion at March 31, 1941, is estimated at $13,632,000. Loans under the authority of the National Housing Act are made jointly by the Government and approved lending institutions and are secured by first mortgage or hypothec, running jointly to the Government and an approved lending institution. Loans are normally made not in excess of 80 per cent of the cost or appraised value of the completed property, whichever is the lesser. However, in the case of owner-occupied houses where the lending value does not exceed $2,500, a loan may be made up to 90 per cent of the said lending value. Since January 1,1940, new applications for loans are received only in respect of the construction of houses containing one self-contained dwelling place and where the loan does not exceed $4,000.

40. Under the Municipal Improvements Assistance Act, 1938, the Government during the fiscal year approved loans in the amount of $2,529,000 to municipalities to enable them to finance the construction of municipal self-liquidating projects. From the inception of the Act to March 31, 1941, total loans

approved aggregated $7,801,000. During the fiscal year, the amount actually paid out on such loans, less repayments, was $1,719,000. These loans bear interest at the rate of 2 per cent per annum and are amortized over a period not longer than the estimated useful life of the project. The province in which the municipality is located is required to guarantee the payments for interest on and amortization of each loan.

41. There was advanced to the National Harbours Board during the year the sum of $264,000 for capital construction purposes at the ports of Montreal and Vancouver. In the same period, loans made in previous years were reduced by $597,000, leaving a net credit on this account of $333,000.

42. During the fiscal year the Government made a loan of $750,000 to the Canadian Government Merchant Marine, Limited in order to provide the Company with working capital for the operation of certain ships seized in prize and either requisitioned for use by the Canadian Government or condemned by the Court as prize.

Canadian Pacific Railway Company

43. Loans to the Canadian Pacific Railway Company made in previous years for relief purposes were further reduced by payments aggregating $211,000. In addition, the Railway paid the third instalment of $441,000 under the terms of a hire-purchase agreement relating to certain equipment purchased by the Government in the fiscal years 1935-36 to 1937-38 at a cost of $5,730,000 and leased to the Railway Company.

Under the authority of the War Measures Act and the War Appropriation Act the Government purchased railway equipment which it leased to the Canadian Pacific Railway Company under the terms of a hire-purchase agreement. During the fiscal year under review the amount actually expended was $7,048,000. The total value of the equipment purchased in the fiscal years 1939-40 and 1940-41 totalled $9,951,000.

44. The following statement shows the net changes in active investments during the last fiscal year together with comparable figures for the four preceding years:

LOANS AND INVESTMENTS, ACTIVE

(000 omitted)

—	1936–37	1937–38	1938–39	1939–40	Estimated 1940–41
	$	$	$	$	$
Sinking Funds	3,646	3,843	4,336	Cr. 2,798	Cr. 61,963
Canadian National Railways	4,573	Cr. 27,429	3,841	21,479	105,574
Canadian Pacific Railway	555	Cr. 211	Cr. 211	Cr. 211	Cr. 211
Canadian Farm Loan Board	10,991	3,848	2,834	2,288	838
Dominion and National Housing Acts—Loans	995	1,678	2,657	4,393	3,827
Municipal Improvements Assistance Act, 1938—Loans	—	—	815	3,111	1,719
National Harbours Board	323	1,890	692	947	Cr. 333
Province of Saskatchewan—War Measures Act	—	—	—	—	58
Provinces—under relief legislation	15,462	16,299	14,985	12,566	1,515
Provinces—Housing Loans, 1919	Cr. 2,038	Cr. 1,422	Cr. 105	Cr. 699	Cr. 1,633
Railway Equipment purchased	5,120	89	Cr. 1,399	8,135	14,781
Soldier and general land settlement	Cr. 489	505	Cr. 749	Cr. 1,116	Cr. 1,332
Roumanian Government	—	359	—	—	—
Bank of Canada—Capital Stock	5,100	—	820	—	—
Central Mortgage Bank—Capital Stock	—	—	—	250	—
Canadian Broadcasting Corporation	—	500	Cr. 50	700	Cr. 364
Canadian National (West Indies) Steamships	—	450	—	—	—
Canadian Government Merchant Marine	—	—	—	—	750
Foreign Exchange Control Board	—	—	—	—	325,000
Net Advances	44,238	399	28,466	49,045	388,226

LOANS AND INVESTMENTS, ACTIVE—Concluded

(000 omitted)

—	1936–37	1937–38	1938–39	1939–40	Estimated 1940–41
	$	$	$	$	$
Less write-offs—					
Soldier and general land settlement loans	−628	−750	−895	−1,643	−983
Canadian Farm Loan Board—Capital Stock	−20	−10	−14	−11	−12
Loans to Province of Saskatchewan Drought Area Relief, 1934–35	—	—	—	−1,374	—
Write-down to non-active assets—					
Manitoba and Saskatchewan treasury bills	−18,487	—	—	—	—
Net change in active investments	25,103	Cr. 361	27,557	46,017	387,231

LOAN FLOTATIONS

45. In the fiscal year 1940–41, the Government issued obligations in the amount of $1,056,189,171. All these issues were floated in the Canadian market. During the same period maturing obligations in the amount of $379,983,273 were redeemed out of the proceeds of the new issues. The remainder of the proceeds, viz., $676,205,898 provided cash for the current purposes of Government including $325,000,000 transferred to the Foreign Exchange Control Board to provide for the purchase of gold and foreign exchange from the Bank of Canada and others under the terms of the Foreign Exchange Acquisition Order, 1940.

46. The following tables give details of the amounts, terms of the new issues and the prices at which they were sold; also bond redemptions during the year.

LOAN FLOTATIONS, 1940–41

Issue Date	Maturity Date	Interest Rate	Where Payable	Price: To Public	Price: To Government	Yield at: Public Price	Yield at: Price to Government	Amount Issued
		%		$	$	%	%	$
1940								
May 1	May 1, 1941	1	Canada	—	100·00	—	1·00	250,000,000
June 1	Mar. 1, 1945	2	Canada	—	99·375	—	2·13	65,000,000
July 1	July 1, 1941	4	Canada (School Lands)	—	100·00	—	4·00	33,293,471
Oct. 1	Oct. 1, 1952	3	Canada	98·75	98·00	3·125	3·20	324,945,700
1941								
Jan. 2	July 2, 1943	1½	Canada	—	99·695	—	1·625	250,000,000
Various	Various	Non-Int. Bearing.	Canada	100·00	100·00	Nil	Nil	*6,000,000
Various	Various	War Savings Certificates	Canada	—	—	†3·00	†3·00	*48,950,000
Various		War Savings Stamps	Canada	—	—	Nil	Nil	* 3,000,000
								981,189,171
Increase in short-term Treasury Bills								75,000,000
								1,056,189,171

* Estimated.

† Yield to investor if held to maturity, seven and one-half years after issue.

DOMINION OF CANADA BOND REDEMPTIONS, 1940-41

Maturity Date	Interest Rate	Where Payable	Amount
	%		$
April 17, 1940*..........	3½	London.......	52,763,135
June 1, 1940..........	1½	Canada.......	80,000,000
July 1, 1940.......... (School Lands)	4	Canada.......	33,293,471
Sept. 1, 1940..........	4½	Canada.......	75,000,000
Oct. 1, 1940†..........	4	London.......	93,926,667
Mar. 15, 1941..........	1	Canada.......	45,000,000
			$379,983,273

* This issue matures on July 1, 1950, but was called for redemption on April 17, 1940. This is the amount outstanding at the beginning of the fiscal year converted on the basis of $4·86 to the £1.

† This issue matures on October 1, 1960, but was called for redemption on October 1, 1940. This is the amount of the issue outstanding, converted on the basis of $4·86 to the £1.

47. During the fiscal year under review, the issue fortnightly of three months' treasury bills was continued. The last issue of treasury bills during the year ended March 31, 1941, was sold at a discount of ·609, the lowest since the outbreak of war. The amount of these treasury bills outstanding at the close of the fiscal year was $230,000,000, an increase of $75,000,000 from the total outstanding at the close of the previous fiscal year.

48. As at March 31, 1941, the average rate of interest on the Dominion's outstanding direct funded debt (including treasury bills) was 3·06 per cent, as compared with 3·40 per cent on March 31, 1940.

NATIONAL DEBT

49. At the close of the fiscal year there was outstanding unmatured funded debt (including treasury bills) of the Dominion in the amount of $4,371,891,000. Of this total, securities in the amount of $5,233,000 were held in the sinking funds against certain issues payable in London. Other liabilities, consisting chiefly of annuity, superannuation and insurance funds, Post Office Savings Bank deposits, and trust and contingent funds, were outstanding on the same date in an estimated aggregate amount of $372,166,000. Without deducting sinking funds now shown as an asset, the gross liabilities of the Dominion totalled $4,744,057,000. On the other side of its balance sheet, the Dominion had active assets of $1,077,741,000, representing cash on hand, sinking funds and active loans and investments. The net debt of the Dominion, the difference between the gross liabilities and the active assets, is therefore estimated at $3,666,316,000. The increase over the same date last year amounted to $395,056,000, namely, the amount of the over-all deficit for the fiscal year.

50. The following is a preliminary statement showing the liabilities and assets of the Dominion as estimated at March 31, 1941:—

LIABILITIES—MARCH 31, 1941
(estimated)

Bank Circulation Redemption Fund..........		$ 4,819,000
Post Office Money Orders, Postal Notes, etc., outstanding..........		3,000,000
Post Office Savings Bank deposits..........		22,000,000
Insurance and Superannuation Funds—		
Government Annuities..........	$ 152,700,000	
Insurance Fund—Civil Service..........	14,200,000	
Insurance Fund—Returned Soldiers..........	19,750,000	
Retirement Fund..........	10,700,000	
Superannuation Funds..........	64,000,000	
		261,350,000

LIABILITIES—MARCH 31, 1941

(estimated)

Trust Funds—		
Indian Funds	14,400,000	
Common School Funds	2,677,000	
Contractors' Securities Deposits	6,500,000	
Other Trust Funds	4,200,000	
		$ 27,777,000
Contingent and Special Funds		6,500,000
Canadian Wheat Board—Reserve for losses on wheat merketing Guarantees		10,500,000
Province Debt Accounts		11,920,000
Funded Debt and Treasury Bills unmatured	4,371,891,000	
Floating Debt—		
Funded Debt matured and outstanding	2,500,000	
Interest due and outstanding	6,800,000	
Outstanding cheques	15,000,000	
		4,396,191,000
		$4,744,057,000

ASSETS—MARCH 31, 1941

(estimated)

Active Assets—		
Cash, working capital advances and other current assets		$ 47,149,000
Recoverable Advances—		
United Kingdom and Other Allied Governments. Militia. Naval and Air		38,440,000
Special Deposits		175,000
Sinking Funds		5,233,000
Bank of Canada Capital Stock		5,920,000
Central Mortgage Bank Capital Stock		250,000
Canadian Broadcasting Corporation—Loan		786,000
Canadian Government Merchant Marine—Loan		750,000
Canadian National (West Indies) Steamships, Ltd.—Loan		450,000
Dominion and National Housing Acts—Loans		13,632,000
Municipal Improvements Assistance Act, 1938—Loans		5,645,000
Loans to Provinces—		
Housing Loans, O.C. of Dec. 3, 1918, and amendments	$ 871,000	
Unemployment Relief Loans	157,493,000	
Loan under the War Measures Act	58,000	
Alberta—Subsidy overpayment	469,000	
		158,891,000
Loans to National Harbours Board—		
Montreal	$ 61,276,000	
Vancouver	25,121,000	
		86,397,000
New Westminster Harbour Commission—Loan		275,000
Canadian Farm Loan Board—Advances and Capital Stock		37,521,000
Foreign Exchange Control Board—Loan		325,000,000
Railway Accounts—		
Canadian National Railways—		
Advances—Financing and Guarantee Act, 1938	1,717,000	
Advances—Refunding Act, 1938	24,689,000	
Advances—Financing and Guarantee Act, 1939	12,443,000	
Advances—Financing and Guarantee Act, 1940	101,724,000	
Temporary Loan	3,850,000	
Senneterre-Rouyn Railway Line	639,000	
Trans-Canada Air Lines	550,000	
		145,612,000
Canadian Pacific Railway—		
Loan for betterment or repair of railway equipment	870,000	
Loan for wages on special works program	111,000	
		981,000
Purchase of equipment leased to—		
Canadian National Railways	20,051,000	
Canadian Pacific Railway	13,919,000	
		33,970,000
Loans to Foreign Governments—		
Greece	6,525,000	
Roumania	24,329,000	
		30,854,000
Soldier and General Land Settlement Loans		35,515,000
Seed Grain and Relief Advances		2,420,000
Munitions and Supply—Advances to Commodity Companies		7,800,000
Canadian Government Railways Working Capital		16,772,000
Bond Holding Account		30,396,000
Province Debt Accounts		2,296,000

ASSETS—MARCH 31, 1941—*Concluded*

(estimated)

Deferred Debits—		
Unamortized discount and commission on loans		$ 44,611,000
		$1,077,741,000
Net Debt, March 31, 1941 (estimated)		$3,666,316,000
Net Debt represented by—		
A. Expenditure and non-active assets (estimated) March 31, 1941.		
Capital Expenditures—		
Public Works—		
Canals	$ 240,311,000	
Railways	429,587,000	
Public Buildings, harbour and river improvements	302,356,000	
Military property and stores	12,064,000	
Territorial Accounts	9,896,000	
		$ 994,214,000
Loans, non-active—		
Canadian National Railways Securities Trust Stock		265,707,000
Canadian National Railways Stock		18,000,000
Canadian Pacific Railway (old)		62,791,000
Canadian National Steamships		13,873,000
National Harbours Board—		
Quebec	27,373,000	
Chicoutimi	3,838,000	
Churchill	10,000	
Halifax	12,480,000	
St. John	16,542,000	
Three Rivers	3,743,000	
Montreal (Jacques Cartier Bridge)	4,473,000	
		68,459,000
Seed Grain and Relief Advances		404,000
Soldier and General Land Settlement		16,526,000
Saskatchewan Seed Grain Loans Guarantee Act, 1936		2,638,000
The Seed Grain Loans Guarantee Act, 1937		7,150,000
Miscellaneous Advances		3,537,000
B. Consolidated Fund—		
Balance, Consolidated fund brought forward from March 31, 1940	1,830,805,000	
Excess of expenditure over revenue, fiscal year ended March 31, 1941 (estimated)	382,212,000	
		2,213,017,000
		$3,666,316,000

51. The following table gives a statement of the unmatured funded debt (including Treasury Bills) of the Dominion outstanding as at March 31, 1941 and the annual interest charges thereon:

UNMATURED FUNDED DEBT AND TREASURY BILLS AS AT MARCH 31, 1941, AND ANNUAL INTEREST CHARGES

Date of Maturity	Rate per Cent	Where Payable	Amount of Loan	Annual Interest Charges
1941, May 1	1¼	New York	$ 20,000,000 00	$ 250,000 00
May 1	1	Canada	250,000,000 00	2,500,000 00
July 1	4	Canada	33,293,470 85	1,331,738 83
Oct. 16	2	Canada	200,000,000 00	4,000,000 00
Nov. 15	5	Canada	141,663,000 00	7,083,150 00
1942, May 15	1½	Canada	95,500,000 00	1,432,500 00
June 1	2	Canada	60,000,000 00	1,200,000 00
Oct. 15	3	Canada	40,409,000 00	1,212,270 00
1943, June 1	2½	Canada	20,000,000 00	500,000 00
July 2	1½	Canada	250,000,000 00	3,750,000 00
Oct. 15	5	Canada	147,000,100 00	7,350,005 00
1944, Jan. 15	2¼	New York	30,000,000 00	675,000 00
June 1	2	Canada	90,625,000 00	1,812,500 00
Oct. 15	4½	Canada	50,000,000 00	2,250,000 00
Nov. 15	2½	Canada	20,000,000 00	500,000 00
1945, Mar. 1	2	Canada	105,000,000 00	2,100,000 00
Aug. 15	2½	New York	76,000,000 00	1,900,000 00
Oct. 15	4	Canada	88,337,500 00	3,533,500 00
1946, Feb. 1	4½	Canada	45,000,000 00	2,025,000 00
1947, Oct. 1	2½	London	4,888,185 64	122,204 64
1948, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
1949, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
June 1	3¼	Canada	33,500,000 00	1,088,750 00
Oct. 15	3½	Canada	138,322,000 00	4,841,270 00
1950, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
1951, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
Nov. 15	3¼	Canada	60,000,000 00	1,950,000 00
1952, Feb. 1	3¼	Canada	50,000,000 00	1,625,000 00
May 1	5	New York	100,000,000 00	5,000,000 00
Oct. 1	3	Canada	324,945,700 00	9,748,371 00
Oct. 15	4	Canada	56,191,000 00	2,247,640 00
1955, May 1	3¼	London	48,666,666 67	1,581,666 67
June 1	3	Canada	40,000,000 00	1,200,000 00
June 1	3	Canada	55,000,000 00	1,650,000 00
1956, Nov. 1	4½	Canada	43,125,700 00	1,940,656 50
1957, Nov. 1	4½	Canada	37,523,200 00	1,688,544 00
1958, June 1	3	Canada	88,200,000 00	2,646,000 00
Sept. 1	4	London	73,000,000 00	2,920,000 00
Nov. 1	4½	Canada	276,687,600 00	12,450,942 00
1959, Nov. 1	4½	Canada	289,693,300 00	13,036,198 50
1960, Oct. 1	4	New York	100,000,000 00	4,000,000 00
1961, Jan. 15	3¼	New York	48,000,000 00	1,560,000 00
1963, July 1	3¼	London	48,666,666 66	1,581,666 67
1966, June 1	3¼	Canada	54,703,000 00	1,777,847 50
Sept. 15	3	Canada	55,000,000 00	1,650,000 00
1967, Jan. 15	3	New York	55,000,000 00	1,650,000 00
1968, Nov. 15	3	New York	40,000,000 00	1,200,000 00
Treasury Bills due April 2, 1941	·643	Canada	35,000,000 00	225,050 00
Treasury Bills due April 18, 1941	·631	Canada	40,000,000 00	252,400 00
Treasury Bills due May 2, 1941	·626	Canada	35,000,000 00	219,100 00
Treasury Bills due May 16, 1941	·624	Canada	40,000,000 00	249,600 00
Treasury Bills due May 30, 1941	·623	Canada	40,000,000 00	249,200 00
Treasury Bills due June 13, 1941	·609	Canada	40,000,000 00	243,600 00
			$4,313,941,089 82	$132,501,371 31
War Savings Certificates	3	Canada	*48,950,000 00	1,468,500 00
War Savings Stamps		Canada	*3,000,000 00	—
Non-Interest Bearing Certificates		Canada	*6,000,000 00	—
			$4,371,891,089 82	$133,969,871 31

Payable in Canada	$3,727,669,570 85	85·26%
Payable in New York	469,000,000 00	10·73%
Payable in London	175,221,518 97	4·01%
	$4,371,891,089 82	100·00%

* Estimated.

INDIRECT LIABILITIES

52. Bonds and debenture stocks bearing the guarantee of the Dominion outstanding in the hands of the public at the end of the fiscal year are estimated at $984,016,379, a decrease of $100,462,853 during the fiscal year. This decrease is accounted for mainly by the purchase of £20,370,091 of Grand Trunk Railway Company of Canada 4 per cent Perpetual Consolidated Debenture Stock, as part of the Government's program of repatriating securities held by British investors.

53. There were also outstanding at the fiscal year end other contingent liabilities arising out of guarantees given under Relief and Seed Grain legislation and other acts. The only new guarantee incurred during the fiscal year was the guaranteeing by the Government of the repayment of bank advances to the National Council of Young Men's Christian Associations (War Services Account). This association required funds for carrying on their services prior to the time that the receipts from the united war charities campaign were obtained. The amount of the bank advances carrying the guarantee of the Dominion outstanding on March 31, 1941, was $68,732.

Guaranteed bank advances to the Canadian Wheat Board outstanding on March 31, 1941, amounted to $101,052,679. This amount constituted the Board's gross liability to the banks and mainly related to the purchase of the 1939 and 1940 wheat crop at the fixed price of 70 cents per bushel No. 1 Northern, Fort William. The guarantee of the Dominion to the Winnipeg Grain and Produce Clearing Association Limited, referred to in previous budgets, is still outstanding. No liability accrues from day to day in connection with this guarantee as margin deposits are made to the Clearing Association daily.

As at October 30, 1940, 125,652 Home Improvement Loans had been made by banks and approved lending institutions to home owners for the amount of $49,990,620. As at this date, the $50,000,000 authorized under the Home Improvement Loans Guarantee Act, 1935, having been exhausted, the Government's undertaking to provide a guarantee for the encouragement of this type of loan was terminated. The Dominion's contingent liability arising out of these loans is limited to 15 per cent of the aggregate of such loans made by each approved lending institution. As 478 loss claims for $132,000 have been paid, the maximum contingent liability as at March 31, 1941, was $7,366,000. In terms of dollar losses to total volume of loans, this loss ratio is slightly more than one-quarter of 1 per cent. Repayments to March 31, 1941, amounted to $35,805,883 or 72 per cent of the total amount of loans made.

Under the Dominion Housing Act, 1935, and the National Housing Act, 1938, the Dominion has accepted and is accepting certain obligations arising out of its contracts with approved lending institutions which, while not expressed in the form of a guarantee, may nevertheless be regarded as contingent or indirect liabilities.

The manner in which losses in respect of any loan are to be borne by the Dominion and the lending institution is fixed by the contract. The general principle is that the Dominion bears two-thirds of the loss if at the time the loss is sustained the principal amount of the loan repaid, less any other amounts due, is equal to or less than the amount advanced by the Dominion and one-third of the loss if at the time the loss is sustained the principal amount repaid, less any other amounts due, is more than the amount advanced by the Dominion. In the case of small loans (that is, for amounts not in excess of $4,000 in the case of a single dwelling place or not in excess of $700 per habitable room in the case of a multiple family dwelling), the share of the loss to be borne by the Dominion is not more than 80 per cent and not less than 50 per cent of the loss. The above provisions apply to loans made under both the present National Housing Act and its predecessor, the Dominion Housing Act. Under the National Housing

Act a new provision has been added to encourage the making of small loans in such small or remote communities and in such districts of other communities as may be designated by the Minister of Finance in any contract. In respect of such loans, the Dominion has agreed in contracts with certain lending institutions to pay losses sustained by any such lending institution up to certain amounts determined by the contract which are not less than 7 per cent and do not exceed 25 per cent of the total amount of such loans made in such areas by the lending institution.

Order in Council, dated December 5, 1939, provided that after January 1, 1940, applications would be received only for loans for the construction of houses containing one self-contained dwelling place and where the loan does not exceed $4,000.

Loans to the number of 15,361 had been approved at March 31, 1941, under the Dominion Housing Act, 1935, and the National Housing Act, 1938, in the amount of $68,620,000. Losses recorded and paid to March 31, 1941, amounted to $831, covering the Dominion's proportion of the loss on two loans. This amount represents total losses to date under both the Dominion Housing Act, 1935, and Part I of the National Housing Act, 1938. These losses are offset by a profit of $500 realized by the sale of one property, of which the Government's share is one-third.

54. The following is a statement of bonds and debenture stocks and other indebtedness guaranteed by the Dominion estimated to be outstanding as at the close of the fiscal year.

BONDS AND DEBENTURE STOCKS GUARANTEED BY THE DOMINION GOVERNMENT AS AT MARCH 31, 1941

Date of Maturity	Issue	Interest Rate	Amount Outstanding
		%	$ cts.
Jan. 15, 1942	Canadian National	2	20,000,000 00
Feb. 15, 1943	Canadian National	2	55,000,000 00
Feb. 1, 1944	Canadian National	2¼	15,500,000 00
May 1, 1944	Canadian National	3	35,000,000 00
Jan. 15, 1946	Canadian National	2¼	15,000,000 00
July 1, 1946	Canadian Northern	6½	23,897,000 00
April 1, 1948	New Westminster Harbour Commissioners	4¾	700,000 00
Dec. 15, 1950	Canadian National	3	50,500,000 00
Sept. 1, 1951	Canadian National	4½	50,000,000 00
Feb. 1, 1952	Canadian National	3	20,000,000 00
Aug. 1, 1952	Saint John Harbour Commissioners	5	667,953 04
Feb. 15, 1953	Canadian National	3	25,000,000 00
July 10, 1953	Canadian Northern	3	9,359,996 72
Feb. 1, 1954	Canadian National	5	50,000,000 00
Mar. 1, 1955	Canadian National (West Indies) Steamships Limited	5	9,400,000 00
June 15, 1955	Canadian National	4¾	50,000,000 00
Feb. 1, 1956	Canadian National	4½	70,000,000 00
July 1, 1957	Canadian National	4½	65,000,000 00
July 20, 1958	Canadian Northern	3½	7,896,541 81
Jan. 15, 1959	Canadian National	3	35,000,000 00
May 4, 1960	Canadian Northern Alberta	3½	3,149,998 66
May 19, 1961	Canadian Northern Ontario	3½	34,229,996 87
Jan. 1, 1962	Grand Trunk Pacific	3	34,992,000 00
Jan. 1, 1962	Grand Trunk Pacific	4	8,440,848 00
July 1, 1969	Canadian National	5	60,000,000 00
Oct. 1, 1969	Canadian National	5	60,000,000 00
Nov. 1, 1969	Harbour Commissioners of Montreal	5	19,000,000 00
Feb. 1, 1970	Canadian National	5	18,000,000 00
By drawings	Canadian National	2	20,432,116 00
Various dates 1941–54	City of Saint John Debentures assumed by Saint John Harbour Commissioners	Various	777,229 31
Perpetual	Grand Trunk Guaranteed Stock	4	60,833,333 33
do	Grand Trunk Debenture Stock	5	20,782,491 67
do	Great Western Debenture Stock	5	13,252,322 67
do	Grand Trunk Debenture Stock	4	20,704,571 46
do	Northern Railway of Canada Debenture Stock	4	1,499,979 67
			$ 984,016,379 21

OTHER LIABILITIES GUARANTEED

	Estimated Principal Amount Outstanding Mar. 31, 1941
Bank Advances, *re* Province of Manitoba Savings Office.....................$	6,218,267
Bank Advances, *re* Government of Newfoundland...........................	625,000
Province of Manitoba Treasury Bill..	4,805,723
Province of British Columbia Treasury Bill................................	626,534
Bank Advances, *re* Canadian Wheat Board..................................	101,052,679
Winnipeg Grain and Produce Clearing Association, Ltd. Day to day margins of the Canadian Wheat Board (closed out daily)........................	
Bank Advances guaranteed under Seed Grain Loans Guarantee Act, 1938...	Not determined
Loans made by approved lending institutions under Dominion Housing Act, 1935 and National Housing Act, 1938..................................	Indeterminate
Loans made by approved lending institutions under The Home Improvement Loans Guarantee Act, 1935...	7,366,347
Deposits maintained by the chartered banks in the Bank of Canada...	207,994,267
Bank Advances *re* Young Men's Christian Associations....	68,732

CANADIAN ECONOMIC CONDITIONS

ANNUAL FIGURES

—	Calendar Years						
	1926	1928	1932	1937	1938	1939	1940
Group I—Comprehensive Indexes (1935-39=100)							
Physical volume of business	83	98	66	102	94	102	121
Volume of manufacturing	92	104	68	113	99	109	135
Mining	53	62	57	100	103	113	125
Forestry	84	87	57	117	88	102	123
Carloadings	131	148	88	106	97	102	114
Electric power output	46	61	61	106	100	109	115
Employment (a)	100	111	88	114	112	114	124
National income (a)	100	114	64	97	95	98	106
Retail sales	(e)	(e)	92	105	101	105	118
Group II.—Price Levels and Financial Factors (1926=100)							
Wholesale prices	100	96	67	85	79	76	83
Farm product prices	100	101	48	87	74	64	67
Cost of living (b)	122	121	99	101	102	102	106
Common stock prices (b)	91	145	51	116	95	92	77
Bank deposits	100	115	100	122	125	134	141
Active currency circulation	100	105	83	110	113	121	163
Group III.—Gross Value of Production in Major Industries ($ millions)							
Agriculture	1,715	1,806	767	1,039	1,063	1,223	(c) 1,243
Forestry	556	586	349	494	425	477	(c) 511
Fisheries	73	71	34	51	53	53	(c) 60
Mining (including Smelting)	277	313	265	663	654	697	(c) 749
Construction	386	488	133	352	353	373	(c) 398
Manufacturing	3,101	3,582	1,981	3,626	3,338	3 414	(c) 4,046
Group IV.—Foreign Trade and International Transactions ($ millions)							
Exports (gold excluded)	1,277	1,364	498	1,012	849	936	1,193
Net non-monetary gold exports (d)	30	40	70	145	161	184	203
Total exports, including non-monetary gold	1,307	1,404	568	1,157	1,010	1,120	1,396
Imports (gold excluded)	1,008	1,222	453	809	677	751	1,082
Total trade	2,315	2,626	1,021	1,966	1,687	1,871	2,478
Export balance	+299	+182	+115	+348	+333	+369	+314
Net tourist receipts	(e)	(e)	(e)	(e)	(e)	78	85
Net interest and dividends going abroad	201	221	262	246	251	254	(c) 270
Net capital export (direct estimate)	(e)	82	11	199	135	162	(e)

(a) 1926=100.

(b) 1935–39=100.

(c) Preliminary estimate.

(d) Adjusted for changes in stocks of earmarked gold. These figures were computed by the Bank of Canada on the basis of official trade returns.

(e) Not available.

CANADIAN ECONOMIC CONDITIONS

MONTHLY FIGURES

—		Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Group I.—Comprehensive Indexes (a) (1935-39=100)													
Physical volume of business	1939	93	92	93	96	100	100	99	103	103	109	109	109
	1940	114	109	106	120	118	120	121	129	130	129	130	128
	1941	131	126	....	....	....	....	....	....	....	....	....	....
Volume of manufacturing	1939	99	93	95	97	101	100	100	103	108	128	121	121
	1940	130	120	116	128	130	129	134	144	149	146	147	142
	1941	142	134	....	....	....	....	....	....	....	....	....	....
Mining	1939	96	103	106	119	126	124	129	126	121	105	128	109
	1940	116	109	113	146	121	137	127	142	124	117	128	124
	1941	123	125	....	....	....	....	....	....	....	....	....	....
Forestry	1939	102	95	94	102	95	102	97	107	111	118	109	108
	1940	121	107	109	113	121	136	137	134	132	125	123	117
	1941	126	121	....	....	....	....	....	....	....	....	....	....
Carloadings	1939	93	87	94	91	106	93	101	107	125	105	110	108
	1940	113	109	96	111	117	115	127	120	107	109	115	125
	1941	123	119	....	....	....	....	....	....	....	....	....	....
Electric power output	1939	106	107	107	104	108	110	108	111	113	113	114	110
	1940	112	114	107	112	123	124	129	119	114	109	109	111
	1941	117	116	....	....	....	....	....	....	....	....	....	....
Employment (b)	1939	111	111	111	110	113	114	114	115	116	118	120	121
	1940	119	118	119	119	121	122	124	127	130	133	136	139
	1941	141	141	....	....	....	....	....	....	....	....	....	....
Retail sales (c)	1939	79	78	92	104	108	110	91	94	116	118	113	157
	1940	90	90	106	110	120	121	103	113	114	132	136	174
	1941	102	101	....	....	....	....	....	....	....	....	....	....
Group II.—Price Levels and Financial Factors— (1926=100)													
Wholesale prices	1939	73	73	73	73	74	73	73	72	78	79	80	82
	1940	83	83	83	83	82	82	82	83	83	83	84	84
	1941	85	85	....	....	....	....	....	....	....	....	....	....
Farm product prices	1939	65	65	65	66	65	63	63	58	64	65	65	69
	1940	70	70	71	72	68	64	65	63	64	65	67	67
	1941	67	68	....	....	....	....	....	....	....	....	....	....

Cost of living (d)	1939	101	101	101	101	101	101	101	101	101	104	104	104
	1940	104	104	105	105	105	105	106	106	106	107	108	108
	1941	108	108	....	....	....	....	....	....	....	....	....	....
Common stock prices (d)	1939	94	95	95	88	90	88	89	86	91	97	94	92
	1940	91	90	90	88	73	66	66	69	76	74	75	70
	1941	71	67	....	....	....	....	....	....	....	....	....	....
Bank deposits (e)	1939	126	126	127	129	129	130	130	129	131	138	144	144
	1940	142	143	139	140	139	137	136	136	138	140	140	139
	1941	146	150	....	....	....	....	....	....	....	....	....	....
Active currency circulation (e)	1939	100	101	103	105	104	103	105	106	119	129	128	130
	1940	119	120	126	125	127	143	154	159	168	173	173	178
	1941	183	190	....	....	....	....	....	....	....	....	....	....
Group III.—Other Significant Factors													
Exports (f) ($ millions)	1939	71	59	70	51	81	78	77	76	83	91	99	102
	1940	91	72	84	85	111	112	102	111	103	107	119	99
	1941	89	100	103	....	....	....	....	....	....	....	....	....
Imports (f) ($ millions)	1939	44	40	58	42	73	64	58	63	74	79	85	72
	1940	71	71	77	86	101	91	90	97	86	109	102	102
	1941	98	90	....	....	....	....	....	....	....	....	....	....
Net non-monetary gold exports (g) ($ millions)	1939	18	13	16	11	16	17	15	9	17	23	15	15
	1940	22	12	16	18	17	15	16	18	17	19	17	17
	1941	19	15	....	....	....	....	....	....	....	....	....	....
Persons on relief (h) (000)	1939	977	1,019	1,028	1,005	923	839	806	803	539	544	586	629
	1940	714	753	773	750	660	543	456	367	262	251	272	307
Construction contracts awarded ($ millions)	1939	7	11	9	12	18	25	22	26	19	14	13	9
	1940	9	12	12	26	28	39	29	41	52	26	55	17
	1941	27	25	14	....	....	....	....	....	....	....	....	....
War expenditure ($ millions)	1939	....	....	....	....	....	....	....	....	4	11	14	19
	1940	13	24	33	10	24	40	39	59	67	82	72	84
	1941	88	83	....	....	....	....	....	....	....	....	....	....

(a) Indexes seasonally adjusted unless otherwise indicated.
(b) As at first of following month. 1926=100.
(c) Unadjusted.
(d) 1935-39=100.
(e) Based on daily average figures; index unadjusted.
(f) All gold excluded.
(g) Adjusted for changes in stocks of earmarked gold. These figures were computed by the Bank of Canada on the basis of official trade returns.
(h) All persons in receipt of material aid; from the National Registration, Department of Labour.